1976 ANNUAL REPORT

INCO LIMITED

This is the first Annual Report under the new corporate name, INCO LIMITED. Shareholders approved the change in name from The International Nickel Company of Canada, Limited at the Annual Meeting on April 21, 1976.

INCO Limited 1976 Annual Report

Contents

Annual Meeting

The Company's Annual Meeting will be held in Toronto on April 20, 1977.

La version française de ce rapport sera fournie sur demande.

Results in Brief

(in thousands except where noted by asterisk)	1976	1975
Net sales	$2,040,282	$1,694,768
Net earnings	$ 196,758	$ 186,889
Per share*	$2.64	$2.51
Dividends paid	$ 119,323	$ 119,284
Per share*	$1.60	$1.60
Income and mining taxes	$ 150,421	$ 135,208
Capital expenditures	$ 459,056	$ 332,664
Ore mined (short tons)	19,800	21,200
Nickel deliveries (pounds)	409,830	351,120
Copper deliveries (pounds)	355,990	334,550
Platinum-group metals and gold deliveries (troy ounces)	554	301
Employees* — Metals business	38,696	37,755
— ESB Incorporated	17,071	15,760
Shareholders*	78,014	84,369

Dollar figures in this Report are expressed in United States currency, unless otherwise stated.

Message to Shareholders

Last year's Message to Shareholders ended on a note of cautious optimism, recognizing and concurring with an apparent consensus that the world was emerging, albeit slowly, from the recession of 1974-75 and that this recovery would in due course be reflected in a resurgence of metal sales. There have been delays and disappointments, but we have not changed our view.

In fact, metal sales did recover somewhat in 1976 and, combined with ESB's record performance, total sales of all products reached a new high — 20 per cent above the 1975 level.

Earnings for 1976 did not grow proportionately, registering only a 5 per cent improvement over 1975, a direct result of continuing pressures on profit margins in the metals business and less favorable currency translation adjustments.

Deliveries of nickel in 1976, while substantially exceeding 1975 deliveries, were still below our expectations. Nonetheless, they did show quarter-to-quarter improvement throughout the year. We expect this upward pattern to continue in 1977, after an interruption in the first quarter. Record nickel sales in December, resulting from price factors referred to in the body of this Report, will adversely affect 1977 first-quarter results.

The capital goods market did not play a significant role in the increased deliveries of nickel in 1976. A peak demand for nickel must await the return of strength to this sector of the economy.

In general, Inco is always in the position of being able to sell all the copper it can produce. The key to a healthy

Inco copper business is price. In 1976, copper prices started to turn upward from the damaging world levels of 1975, and we look to further improvement in 1977.

Inco's projects, long under development, for the recovery of nickel from lateritic ores—the Guatemalan Project and Phase I of the Indonesian Project—will finally move from the construction to the production stage in 1977. It has taken many years, great effort, and massive investment to bring these into being. When the Guatemalan and Phases I and II of the Indonesian facilities are completed, they will represent an investment of over $1 billion. There can be no clearer indication of the confidence which Inco's management and Board of Directors have in the long-term growth of the nickel market than the development of these two production units.

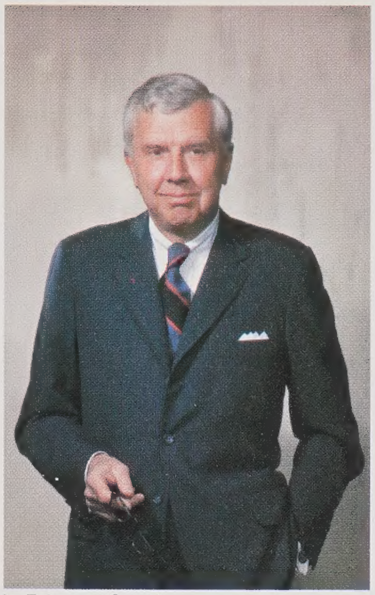
In 1976, Inco increased its investment in nickel inventories, although the rate of build-up slowed substantially from 1975 as a consequence of higher 1976 deliveries. Our policy in this regard was based, once again, on our faith in the recovery and future growth of the nickel market, and on the need to provide, in a prudent and responsible manner and within the limits of our capability, stable employment in the communities in which we produce.

Inco's Canadian Alloys Division began construction of its new facility in the Sudbury District of Ontario in March of last year. This is the first Canadian plant of the formed metal products group. It will produce strip, primarily for coinage, and is scheduled to come on stream in 1977.

The first major step in Inco's diversification program was the acquisition in mid-1974 of ESB Incorporated, one of the world's leading battery companies. As we said at that time, among our criteria in making acquisitions are a good earnings potential and the capacity to offset cyclical swings in earnings in the metals business. In the light of these criteria, Inco had every reason to be pleased with the performance of its battery business in 1976. ESB had its best year ever, and its contribution to Inco's earnings far exceeded its recession-affected 1975 contribution.

Inco's diversification program also encompasses the commercialization of internal developments. In 1976, two such developments were started down that road. A new subsidiary, Inmetco, was formed to bring into production in 1978 an Inco process for converting waste from specialty steel mills into commercially useful metallurgical charge material. This will involve an investment of some $30 million. Another business was initiated based on Inco's development of an alloyed plastic capable of being electroplated directly, thus eliminating several costly processing steps.

Shareholders will be asked, at their Annual Meeting on April 20, to approve a bylaw providing for increases in the authorized capital of the Company, including the creation of a class of preferred shares. If the bylaw is approved, the Company intends to issue $250 million (Cdn.) of preferred shares to a limited number of Canadian institutional investors. Full details will be made available to the shareholders before the Annual Meeting in the 1977 Information Circular and Proxy Statement. The actions contemplated are intended to give Inco greater flexibility in meeting its financial requirements and bring about improvements in its financial ratios. 1976 was a year in which progress was made on many fronts. It was also a year of challenge, and the demands on our people were heavy. We expect 1977 to be better than 1976, and we are confident that we have the capabilities to meet our long-range goals for profitable growth.



L. Edward Grubb

J. Edwin Carter

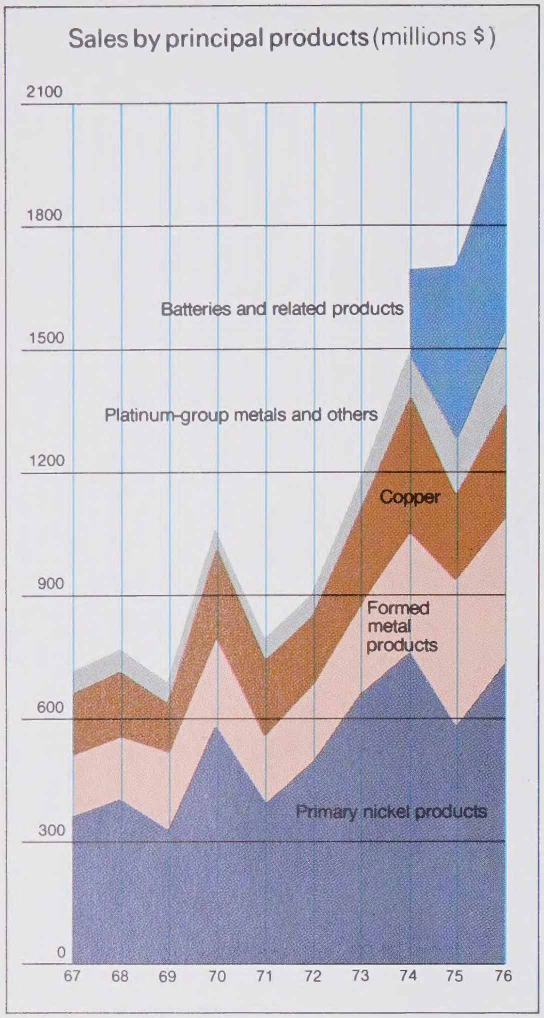
Edward Grubb

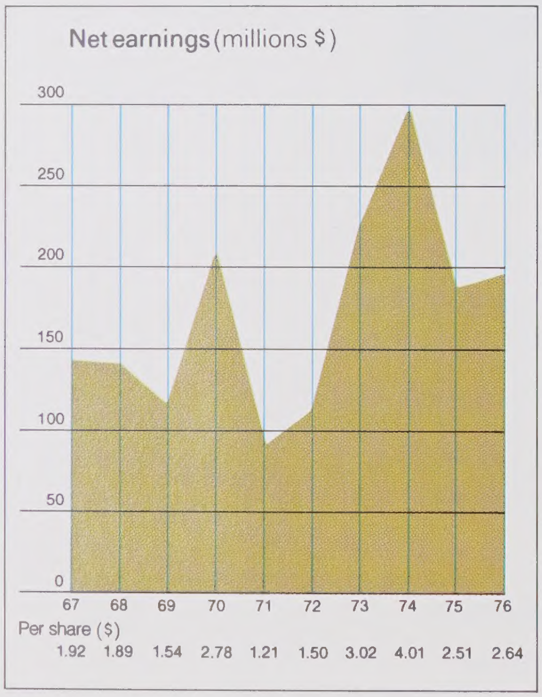
Chairman and Chief Officer

J. Edwin Carter

President

February 17, 1977





INCO Limited
and Subsidiaries
February 17, 1977

Financial Review

Net earnings in 1976 were $196.8 million, or $2.64 a share, compared with $186.9 million, or $2.51 a share, in 1975, an improvement of five per cent. Major factors accounting for this improvement included increased deliveries of nickel and precious metals, improved prices for nickel and copper, and a substantial increase in ESB's contribution to earnings. These benefits more than offset the adverse effects of continuing increases in unit costs in the metals business, reduced demand for formed metal products, higher interest expense, and a reduced amount of favorable currency translation adjustments. Net earnings in 1976 included a credit of $2 million from currency translation adjustments, compared with a credit of $14 million in 1975. Before the effect of these currency translation adjustments, earnings in 1976 improved 13 per cent over 1975.

Net sales in 1976 increased 20 per cent from the prior year. Sales, by principal products, in the two years were:

	1976	1975
	(in millions)	
Primary nickel	$ 762	$ 569
Formed metal products	365	370
Refined copper	227	194
Precious metals	57	44
Other metal products	31	21
Total metal products	1,442	1,198
Batteries and other products	598	497
	$2,040	$1,695

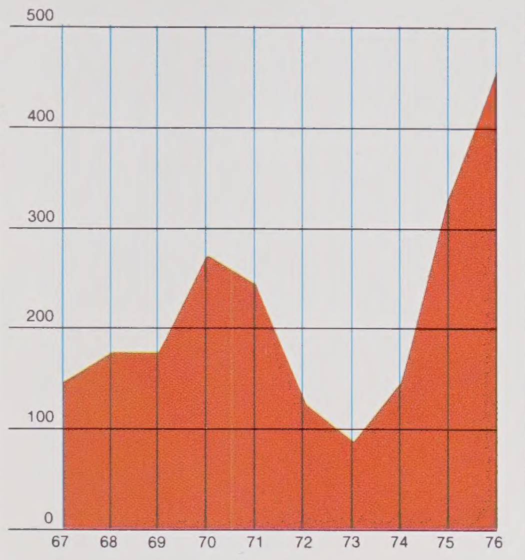
Total nickel deliveries were 410 million pounds in 1976, compared with 351 million pounds in 1975, an increase of 17 per cent. The increase in copper sales reflects higher deliveries at improved prices. The Company realized 65 cents a pound, on average, for copper in 1976, compared with 59 cents a pound in 1975. Although sales of rolling mill products decreased 12 per cent from the prior year's record levels, total sales of formed metal products declined only one per cent. Daniel Doncaster & Sons Limited contributed $61 million to formed metal products sales in 1976, compared with $26 million in 1975 subsequent to its acquisition effective August 17, 1975. ESB's sales of batteries and other products reached record levels in 1976, an increase of 20 per cent over 1975, reflecting a high level of demand for its products throughout the year.

Total costs for the year were $1,325 million, compared with $1,072 million in 1975, an increase of 24 per cent. This increase reflects the higher volume of business and continued escalation in labor, supply and energy costs.

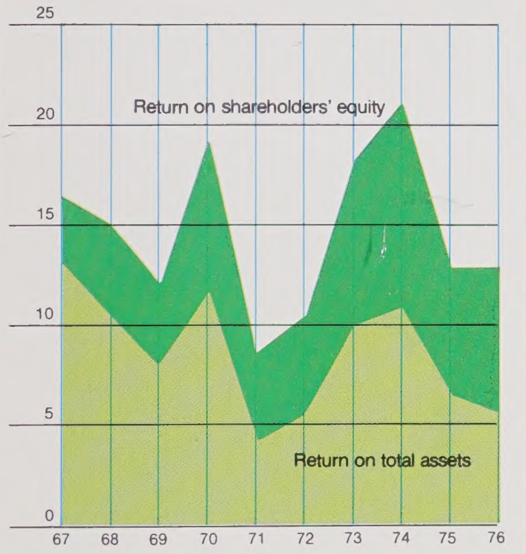
Income and mining tax expense increased from $135 million in 1975 to $150 million in 1976, primarily as a result of the improvement in earnings. The Company's effective income and mining tax rate also increased, from 42.0 per cent in 1975 to 43.3 per cent in 1976. Recognizing existing tax legislation, the Company's effective income and mining tax rate is expected to be about 50 per cent in 1977.

New accounting principles adopted in 1975 require that current earnings include adjustments resulting from fluctuations in currency exchange rates as they affect the U.S. dollar equivalent of the Company's assets and liabilities denominated in Canadian and foreign currencies. These adjustments do not enter into the calculation of income and mining taxes, and therefore have a direct impact on net earnings. Currency translation adjustments increased 1975 earnings by $14 million, or 19 cents a share, and were attributable principally to the declines in value of the Canadian dollar and pound sterling. In 1976, the adjustments resulted in increased earnings of $2 mil-

Capital expenditures (millions $)



Return on shareholders' equity and total assets (%)



Dividends (millions $)

lion, or 3 cents a share, reflecting mainly a further decline in the value of sterling almost entirely offset by an increase in the value of the Canadian dollar.

Total current assets at December 31, 1976 were $1,396 million, an increase of $265 million from the prior year-end. Major reasons for this increase include a sharply higher level of accounts receivable, resulting mainly from heavy deliveries of primary nickel in December as customers took advantage of the price protection program expiring at year-end, and from increased investment in inventories. In 1976, the Company built up its inventory of primary nickel but at a much slower rate than in 1975. The cost of the additional inventories has been financed, in part, by short-term debt.

Capital expenditures in 1976 totalled $459 million, compared with $333 million a year ago. More than half of the 1976 expenditures represented continued development of the lateritic nickel projects in Indonesia and Guatemala, while most of the remaining expenditures related to the continuing replacement and modernization of the Company's Canadian production facilities. At year-end, the Guatemalan project and Stage I of the Indonesian project were substantially completed. More than half of the capital expenditures in 1977, which are estimated to total $475 million, relate to the completion of these projects and the development of Stage II of the Indonesian project. As in 1976, the expenditures in 1977 related to the lateritic projects will be financed to a great extent by long-term loans arranged by the Company's Indonesian and Guatemalan subsidiaries.

The Company's rate of return on total assets fell from 6.2 per cent in 1975 to 5.4 per cent in 1976. The favorable effect of improved 1976 net earnings on this measurement was more than offset by the increase in 1976 of $600 million in total assets, an increase which included $327 million for the Indonesian and Guatemalan projects which were not yet in production. Return on shareholders' equity in 1976, as in 1975, was 12.6 per cent.

On January 19, 1976, the United States Department of Justice filed a civil antitrust suit against the Company alleging that the acquisition of ESB was in violation of Section 7 of the Clayton Act and asking that the Company be required to divest itself of ESB. The Company believes that the acquisition does not entail anti-competitive consequences, and answers have been filed by the Company and ESB denying the material allegations of the complaint. The parties are engaged in pre-trial discovery proceedings.

On February 7, 1977, the Board of Directors declared a quarterly dividend of 35 cents a share, payable March 10 to Class A and Class B shareholders of record on February 17. The dividend on the Class B Common Shares was declared payable out of "1971 capital surplus on hand" as defined in the Income Tax Act of Canada. In 1976, the Company paid dividends of $119.3 million, or $1.60 a share, the same as in 1975.

At that meeting, the Board of Directors also enacted a bylaw which provides for increases in the authorized share capital of the Company by increasing the authorized number of both the Class A Common Shares and Class B Common Shares from 90 million to 100 million shares each, and by creating a new class of 30 million preferred shares issuable in series. The bylaw is subject to approval at the shareholders' meeting to be held April 20, 1977. The Company is arranging to sell 10 million of the new class of preferred shares to a limited number of Canadian institutional investors for $250 million (Cdn.), subject to obtaining all necessary commitments and approvals. The 10 million preferred shares, which will not have general voting rights, will have a cumulative floating rate dividend equal to half the Canadian prime rate plus 1¼ per cent.

Deliveries	1976	1975
	(in thousands)	
Nickel (pounds)	409,830	351,120
Copper (pounds)	355,990	334,550
Platinum-group metals* and gold (troy ounces)	554	301
Silver (troy ounces)	1,190	1,900
Cobalt (pounds)	2,430	1,040
Iron ore (long tons)	477	509

Metal sales	1976		1975	
	(dollars in thousands)			
Primary nickel	$ 761,996	53%	$ 568,904	47%
Formed metal products†	365,185	25	369,976	31
Refined copper	226,610	16	194,148	16
Precious metals	56,852	4	44,438	4
Other	31,929	2	20,577	2
Total	$1,442,572	100%	$1,198,043	100%

Metal sales by geographic area	1976		1975	
	(dollars in thousands)			
United States	$ 584,035	41%	$ 492,716	41%
Europe	565,415	39	478,822	40
Canada	162,373	11	141,693	12
Asia	87,871	6	54,486	5
Other	42,878	3	30,326	2
Total†	$1,442,572	100%	$1,198,043	100%

*Platinum, palladium, rhodium, ruthenium and iridium.
†Includes sales by Daniel Doncaster & Sons Limited of $61,227,000 in 1976 and $26,320,000 in 1975 subsequent to its acquisition effective August 17, 1975.

Metals Marketing

The tables to the left compare the Company's metals marketing results in 1976 with those in the previous year.

Nickel

Reflecting a moderate improvement in world economic conditions, the Company's nickel deliveries increased 17 per cent from the low level of 1975, but were well short of the record deliveries of more than 549 million pounds in 1974. The consumer goods sector was responsible for most of the increase. Capital investment expansion, which strongly influences nickel consumption, was not a substantial factor in the over-all improvement in 1976 nickel deliveries.

Sales programs to promote a wider use of the Company's products were successfully introduced during the year. Bulk shipments of pellets, nickel oxide sinter 75 and INCOMET* nickel were promoted as a means of assisting customers in realizing lower packaging and handling costs. Also during the year, the use of INCOMET nickel, a product introduced in 1973, was expanded in the steel and foundry industries.

On October 1, 1976, the price schedules of the Company's primary nickel products were increased by an average of 9.6 per cent. The current price of the Company's electrolytic nickel and nickel pellets is $2.41 a pound. The current prices for nickel oxide sinter 75 and INCOMET nickel are $2.27 and $2.31, respectively, per pound of nickel content, subject to certain allowances, uniformly applied, which the Company reviews periodically for these products in response to market conditions.

The effect of the new prices on 1976 revenues was insignifi-

The picture on the facing page is from a Company sales publication aimed at the plating market and designed to promote interest in the beauty and versatility of nickel plating.

Left: Throughout the world, trade-fair booths are an important facet of Inco's nickel sales promotions. This United Kingdom display shows platers how to reduce costs and improve product lines with various types of Inco nickel.

*Inco trademark

cant because virtually all nickel deliveries were made at the previous prices under the Company's prevailing price-protection program.

The Company's nickel inventories at year-end were equivalent to a five to six months' supply, as compared with a normal level of two to three months' supply.

Copper

Deliveries of ORC* copper were 6 per cent higher than in 1975, but were about 11 million pounds below the record 1974 figure. Copper demand increased modestly during the year, and there was some improvement in both the Canadian producer price and the London Metal Exchange (LME) price. Prices showed signs of strength by mid-year. They declined toward the end of the year, and closed at levels that were slightly higher than a year earlier. On December 31, 1976, the producer price was 67.125 cents (Cdn.) a pound and the LME price was the equivalent of 61.5 cents a pound. Inco's domestic price was increased on February 3, 1977 to 70 cents (Cdn.) a pound.

The Company realized an average price of 65 cents a pound for its copper in 1976, an improvement of about 10 per cent over the previous year.

Precious Metals

Sales of precious metals increased 28 per cent over the depressed 1975 levels, despite substantially lower prices realized for gold and palladium. There was a significant reduction in the Company's inventory of platinum-group metals.

Formed Metal Products

The business level of all three wholly owned subsidiaries producing formed metal products — Huntington Alloys, Inc. in the United States, and Henry Wiggin & Company Limited and Daniel Doncaster & Sons Limited in the United Kingdom — declined in 1976. Net sales of the rolling mills, Huntington Alloys and Wiggin, were down about 7 per cent and 23 per cent, respectively, compared with the records set by both companies in 1975. The decrease in Wiggin's sales was attributable mainly to the decline in the value of sterling in 1976.

An increase in new orders at Huntington in the fourth quarter of 1976 is an encouraging sign that sales will improve somewhat in 1977. Among Huntington's major markets are the chemical, petrochemical, energy and marine industries.

New orders also rose slightly at Wiggin in the course of the year, but by year-end, outstanding orders were below the year-end 1975 level. To stimulate orders from European gas turbine manufacturers, Wiggin introduced during the year four new high-nickel alloys which resulted from Inco research.

Doncaster's business in 1976 reflected reduced activity in many of the industries it serves, especially the aircraft industry in the United Kingdom. Loss of sales in this market is expected to be countered by Doncaster's increased participation in aircraft industry markets in continental Europe in 1977, as well as in automotive, petroleum and other industries. During 1976, Doncaster gained a major new market in Europe as a supplier of nickel alloy rings and casings for aircraft engines.

Metals Production

In 1976, the Company produced 462 million pounds of finished primary nickel products, compared with 459 million pounds in 1975. Nickel production was adversely affected by two work stoppages at Thompson, totalling 14 days, in protest against the Anti-Inflation Board's rollback of wage increases granted under a collective bargaining agreement signed on February 25, 1976.

Nickel production in 1977 will include a small amount of initial output from the Company's new Indonesian project. Production of nickel matte will begin in Guatemala in the latter part of 1977, but it will not be refined for sale until 1978.

Copper production in 1976 totalled 345 million pounds, compared with 364 million pounds in 1975. Inco's copper production is associated with its Canadian nickel production. The ores processed by the Company in Indonesia and Guatemala do not contain recoverable amounts of copper.

Primary Metals

Canada

The Company's Ontario and Manitoba Divisions mined a total of 19.8 million short tons of ore during the year, with an average grade of 1.41 per cent nickel and .97 per cent copper. This compares with 21.2 million tons in 1975, which had an average grade of 1.40 per cent nickel and .92 per cent copper.

Inco has 15 operating mines in Canada: 12 in Ontario and three in Manitoba. There are

Developing a cut-and-fill stope in the Copper Cliff South mine. Rock bolts, six feet in length, are driven into the "back" to help support the surrounding ground. A metal screen attached to the bolts protects workers from small pieces of loose rock that may occur from blasting.

*Inco trademark

Above: Headframe over the 4,430-foot-deep T-1 shaft at Thompson, Manitoba.

Right: Control room at the Clarabelle mill is the nerve centre of automated operations capable of crushing and separating 35,000 tons of ore a day.

Far right: Continuously cast copper billets at the Copper Cliff refinery being checked prior to shipment to customers in Canada and Europe.

also three mines being maintained on a standby basis, two in Ontario and one in Manitoba.

In the Ontario Division, work continued during 1976 to develop two mines, Levack East and the Clarabelle open-pit extension, both in the Sudbury area. Levack East is now scheduled to begin production in 1983. Clarabelle, an extension of a mine that had previously been in production, is expected to resume production in 1978. Production at the Victoria mine, which was suspended in December 1975, was resumed in April 1976 from a newly developed section of the orebody. Operations at the small Kirkwood mine ceased in March 1976 upon the depletion of mineable ore. Kirkwood had been in production since 1969. At year-end, plans were completed for the construction of a \$27-million ventilation system at the 75-year-old Creighton mine. The system is the first part of a long-range program that will make possible the full utilization of the Creighton orebody.

In the Manitoba Division, development work continued at the three operating mines, Birchtree, Pipe and Thompson. Production was sharply reduced at the low-grade Pipe open-pit mine in January 1976 to permit a more effective deployment of the work force, but it was gradually increased later in the year.

Indonesia

At the end of 1976, construction of Stage I of the lateritic nickel project of P.T. International Nickel Indonesia, a majority-owned subsidiary, was completed at Soroako on the island of Sulawesi. Trial production runs began early in 1977. The first shipments of nickel matte are scheduled for the summer of 1977. Stage I production is planned at an annual rate of 35 million pounds of nickel in matte form.

Stage II of the project, which includes the construction of two additional process lines and a hydroelectric installation on the Larona River, was 40 per cent completed at year-end. When it comes on stream in 1978, the second stage will boost annual production capacity to approximately 100 million pounds of nickel in matte.

The capital cost of the entire project is estimated at \$850 million. This amount provides for an additional 55-megawatt generating unit at the Larona River hydroelectric plant, which will raise its total capacity to 165 megawatts. The third unit will make it possible for the hydro plant to provide all the electrical energy required by the project.

Financing arrangements for the project have been completed. Long-term debt financing is being provided by three international syndicates of commercial banks and through government and government-supported agencies in Canada, the United States, Australia, Japan and several European countries. The project is being financed one-third with equity and two-thirds with debt.

Guatemala

By the end of 1976, the lateritic nickel project of Exmibal, a majority-owned subsidiary, was more than 95 per cent completed. The project is located near Lake Izabal in eastern Guatemala. Mining has begun and ore is being stored for trial production runs during the spring of 1977 Production of nickel matte will begin in the third quarter of 1977 and should reach the planned annual rate of 28 million pounds of nickel in matte in early 1978.

The estimated cost of the project remains at \$224 million. Financing arrangements were concluded in 1976 and have been approved by Guatemalan authorities.

United Kingdom

During the year, plans were completed at the Company's Clydach, Wales, refinery for the construction in 1977-1978 of a fluid bed roasting plant and an associated sulphuric acid plant to treat the roaster gas. The new facilities will give the refinery the ability to treat the nickel matte produced in Guatemala and Indonesia The Clydach refinery will produce both highly refined Class I nickel (such as pellets) and lower-priced Class II products (such as nickel oxide sinter 75) from the matte. It is expected that the products will be marketed primarily in Europe

Formed Metal Products

Huntington Alloys completed a reclamation facility in Huntington, West Virginia, in 1976 to recover metals from chromium-bearing and copper-bearing slags. A chromium-recovery facility was also built during the year at its Burnaugh, Kentucky, plant. These operations will have both financial and environmental benefits

At Henry Wiggin, Hereford, England, work began on two major capital projects to modernize and expand tube production and to extend Wiggin's capacity to vacuum-melt and process alloys required by the turbine and electronics industries.

A new rolling mill, to be operated by Inco's Canadian Alloys Division, is being built in the Sudbury District of Ontario. Construction started in March 1976, and by year-end it was 70 per cent completed. Scheduled to go into production in mid-1977, it will produce, by the direct rolling of metal powders, nickel and

Left: Tapping of the first nickel matte from the electric furnace at Soroako, Indonesia, on January 18, 1977, is witnessed by employees and management.

Below: Work is advancing on the hydroelectric plant being built on the Larona River as part of the second stage of the P.T. Inco Indonesia project.

Right: Conveyor system stockpiling lateritic nickel ore in Guatemala frames the Exmibal processing plant in the background.

cupro-nickel alloy strip, primarily for coinage. Inco's investment in the completed facility is estimated at $29 million

Daniel Doncaster developed during the year a method of close-to-size hollow extruded forging to meet the growing demand for fabricated axle casings for commercial vehicles. Doncaster, headquartered in Sheffield, England, manufactures forged and machined products at seven plants

Environmental Control

The Company is operating in compliance with regulations governing effluents to water courses at all of its operations throughout the world. The Company continues to recycle about 85 per cent of the process water used for the Sudbury operations. It treats the remainder in two new effluent water treatment plants prior to discharge. The plants were commissioned in 1976

With respect to atmospheric emissions, the Ontario Division continues to operate in compliance with the Ontario Ministry of the Environment Order which calls for progressive reduction in sulphur dioxide emissions in the Sudbury area. The Company is continuing discussions with the Ministry regarding the levels of emissions after December 31, 1978. The Company has also begun a program aimed at the containment of smelter gases at Copper Cliff. In Manitoba, the Company is complying with an order restricting emissions from the Thompson smelter chimney. The Company is also proceeding on its own, but with government encouragement, with a five-year ecological study to determine the possible effects of smelter emissions on soil, water, flora and fauna in the Thompson area

Safety and Health

In Ontario, the release in 1976 of the Report of the Royal Commission on the Health and Safety of Workers in Mines resulted in legislation establishing a new division in the Ontario Ministry of Labour to regulate all aspects of worker health and safety. Inco had already been carrying out many of the measures recommended by the Royal Commission Report through joint management-employee safety, health and environment committees. Similar committees were established in the Manitoba Division under provisions in the March 1, 1976 collective bargaining agreement. Under the agreement for the Ontario Division, signed July 19, 1975, the Company also established a $450,000 fund to commission independent occupational health research projects in consultation with the United Steelworkers of America. The program is being conducted by the Faculty of Health Sciences of McMaster University, Hamilton, Ontario

In the United States, Inco United States, Inc. supplied information to the National Institute of Occupational Safety and Health in response to that agency's request for assistance in the preparation of a "criteria document" on nickel for the Occupational Safety and Health Administration

Above: To serve various customer needs, Inco produces nickel in many forms. One of the major markets is for electrolytic nickel, seen here in production at the Thompson refinery.

Right: Daniel Doncaster & Sons Limited, Sheffield, England, has developed specially shaped forgings for use in seabed equipment, oil rigs, pipelines, and oil refinery and chemical plants.

Metals Research

Inco's expenditures on metals process and product research and development in 1976 were $30 million. This figure, which does not include $8.3 million spent on research by ESB, compares with $29 million in 1975.

The Company's process research laboratories and research stations continued to support Inco's objectives in the natural resource area. One of their major efforts was directed toward the long-term goal of developing improved pyrometallurgical and hydrometallurgical processes for the economic and clean extraction of metals.

A promising laboratory achievement during the year was the development of a versatile process for the solvent extraction of nickel and cobalt from solutions derived from the leaching of lateritic ores.

Pilot plant studies of Inco's proprietary process for oxygen flash smelting demonstrated the potential of this relatively low energy-consuming system for smelting at higher than conventional rates, while maintaining peak efficiency.

Inco's product research laboratories continued to support the Company's marketing objectives through work aimed at demonstrating the merits of the Company's nickel product forms; studies of metallurgical and electroplating processes of value to customers; the provision of data concerning the use of nickel-containing products; and new developments in materials and processes.

Major new technologies from Inco's product research laboratories during 1976 include:

A directly electroplateable plastic that will permit plastic fabricators to eliminate preplating processes associated with conventional plastics.

A strong, high-conductivity aluminum wire for aircraft circuitry, derived by broadening Inco's previously reported mechanical alloying discovery.

High-lustre nickel, stainless steel and copper alloy flake for the manufacture of decorative paints and certain electronic applications.

A paint-on coating technique that can apply either nickel or stainless steel to carbon steel to enhance its resistance to corrosion; the nickel coating also facilitates bonding of clad products.

The following inventions from Inco's research laboratories, noted in recent Annual Reports, are now commercial products:

IN-787, a formable, strong and tough steel containing nickel and copper, is being used for pipeline valves and truck frames.

IN-838, a copper-based nickel-chromium alloy resistant to erosion and fouling by sea water, has been specified for air conditioner tubing.

Colored stainless steel is now licensed by Inco to 14 producers in eight countries for architectural, consumer and artistic applications.

IN-657, a chromium-nickel alloy of exceptional resistance to corrosion by residual fuel, is being used for furnace supports and tube sheets.

Resource Development, Exploration and Ore Reserves

Resource Development

A joint exploration and evaluation venture with French partners, begun in November 1976, will determine the economic feasibility of reactivating a small chromite mine on the Company's Tiébaghi property in New Caledonia. The program is expected to take about two years to complete.

Inco and its joint-venture partners in Baminco, a Brazilian company, continued technical and economic studies related to the Barro Alto lateritic nickel deposit in Brazil.

Test production from native copper ores on the Keweenaw Peninsula of Michigan was suspended during the year, but work continued on the program of exploration for copper, being carried out by an Inco-Homestake Mining Company joint venture.

The international consortium, of which Inco is a member with United States, German and Japanese partners, made progress during the year on its program to assess the feasibility of mining and processing deep-ocean nodules containing nickel, copper, cobalt and manganese. Methods for harvesting nodules from the ocean floor were tested at sea, and studies of processes for the economic extraction of metals from the nodules continued. The feasibility studies are on schedule and will be completed in 1979. The eventual decision whether or not to proceed with commercial production will depend not only upon technical and economic considerations, but also upon the political and legal environment.

The Company has resumed negotiations with the French government regarding an

agreement for the development of lateritic nickel deposits in New Caledonia. Inco owns mineral rights in New Caledonia and has held options on other deposits there since 1959. In 1970, the Company proposed, without success, a large-scale nickel project in New Caledonia with French partners. The principal deposit, on which that proposal was based, is no longer available to Inco. If a new agreement is reached, further studies would be required over a period of years to assess the commercial feasibility of a new project, and partners for the venture would be sought.

Exploration

Inco's expenditures on exploration amounted to $36 million in 1976, compared with $30 million in 1975. As in the previous year, about one-third of the total was spent exploring for oil and gas.

Exploration activities for nickel at the Company's mines in Canada and at Soroako, Indonesia, were carried out in 1976 on a scale similar to 1975. In Sudbury, a program of deep drilling from surface was begun to test unexplored geological targets down to a depth of 10,000 feet.

Field exploration for a variety of minerals of interest to the Company was conducted in Canada, Australia, Brazil, Indonesia, Mexico and the United States.

Oil and Gas

A majority-owned Inco subsidiary, Compañía Centram, S.A., is the titleholder of several petroleum exploration concessions in Guatemala. Centram participated in drilling an off-shore well in 1976 to a total depth of 13,875 feet. Results are being evaluated to determine the nature of any future exploration program.

Arrangements were made in 1976 for Esso Ventures, a wholly owned subsidiary of Exxon Corporation, to drill a well in Belize early in 1977 on off-shore acreage in which Inco has a 40 per cent interest. When Esso Ventures completes the well, it will have a 57 per cent interest and Inco a 19 per cent interest. The remaining interest will be held by two other companies.

The Company continued to participate in the Panarctic Oils Ltd. venture in the Canadian Arctic. Its interest in this program is 5 per cent.

Ore Reserves

On December 31, 1976, the Company had proven ore reserves in Canada of 412 million short tons, containing 6.8 million short tons of nickel and 4.4 million short tons of copper. Corresponding reserves at year-end 1975 were 415 million short tons, containing 6.7 million tons of nickel and 4.3 million tons of copper.

Proven reserves are only those that have been sampled in sufficient detail to enable a reliable calculation of tons of ore and tons of contained metal.

The Company has also outlined very large resources of nickeliferous laterite at Soroako, on the island of Sulawesi in Indonesia, and in the Lake Izabal area in eastern Guatemala. At each location, these resources are adequate to support operations at planned rates of production for the expected lives of the facilities. A continuing program of preproduction development and drilling already permits scheduling of plant feed from mining sites close to the plants for ten years, and this program will be accelerated with the start of production.

ESB Incorporated

Sales of ESB Incorporated were $598 million in 1976, compared with $497 million in 1975. Record sales levels were attained by the Automotive, Ray-O-Vac*, International and Willson Groups. Earnings increased substantially as a result of a steady improvement in ESB's business throughout the year.

ESB's principal activities are automotive battery products, which in 1976 accounted for 35 per cent of sales; dry-cell batteries and portable lighting devices, 34 per cent; personal safety products, fractional horsepower motors and other products, 19 per cent; and industrial and special batteries, 12 per cent.

On January 31, 1977, ESB acquired from the Swedish industrial firm AGA Aktiebolag its battery subsidiary, AB Tudor of Sweden, including Tudor's 49 per cent interest in A/S Hellesens-Tudor of Denmark. ESB paid $10.8 million for all the outstanding shares of Tudor, and will arrange for Tudor to refinance its loan of $10.8 million from AGA Aktiebolag with bank loans. AB Tudor conducts business primarily in the Scandinavian countries. Annual sales are approximately $45 million, consisting of automotive and industrial batteries, industrial battery tubing and machinery for battery production. A/S Hellesens-Tudor is a major Scandinavian dry-cell battery manufacturer, with annual sales of approximately $35 million.

*ESB trademark

Ray-O-Vac has added to its line of lighting devices a new light for use on the front or (with a red lens inserted) on the back of any bicycle. It mounts easily and can be detached and used as a flashlight.

Above: Automotive batteries go through quality control tests on assembly line at the ESB Automotive Division plant at Burlington, Iowa.

Far left: ESB introduced a full line of maintenance-free truck batteries in 1976.

Left: During the year, the Exide Power Systems Division opened its new 102,000-square-foot plant in Raleigh, North Carolina, for the production of uninterruptible power systems.

Batteries and Related Products

Sales were paced by growing demand for Ray-O-Vac Ditronic* batteries for digital watches. Demand outstripped the company's ability to supply these cells. Consequently, in May, ground was broken for a plant in Portage, Wisconsin, to expand the output of watch and hearing-aid miniature batteries. The plant will employ approximately 450 people when operations begin in the first quarter of 1977.

The Ray-O-Vac Division also acquired a plastics moulding facility in Wisconsin to produce components for alkaline hearing-aid and watch batteries.

Anticipating high consumer interest in maintenance-free batteries, ESB's Automotive Division plants began production of this new type of automobile battery in the fall of 1975. By the end of 1976, maintenance-free batteries represented more than 25 per cent of ESB's replacement sales.

The Automotive Division also expanded its service to truck fleet owners by introducing five new Exide* and Willard* maintenance-free truck batteries. The line requires no rewiring, recabling or modification of battery housings.

During the year, the Wisco Division introduced its Hibernator* battery for the motorcycle market. It employs a special alloy that reduces the power loss that causes many batteries to die during winter storage months. Wisco is the largest manufacturer of motorcycle batteries in the United States.

Exide Power Systems Division opened its new Raleigh, North Carolina, plant during the year. The plant provides increased capacity for the production of uninterruptible power systems (UPS) and industrial battery chargers. The facility has ample room for expansion to keep pace with the expected doubling of the UPS market over the next decade. Exide also added two new UPS designs to broaden its coverage of this fast-growing market.

Exide leased a plant in Richmond, Kentucky, for the production of industrial lead-acid batteries. Installations will be completed in early 1977

Safety Products

One of the major new products from the Willson Group's Exide Safety Systems Division in 1976 was the H Lamp*, a high-efficiency halogen lamp for emergency lighting in public places, which provides 25 per cent more effective light while using 50 per cent less power than incandescent and sealed beam lights.

A 1976 addition to Exide Safety Systems' line of Centaurus* emergency units is capable of providing power for all types of the new high-intensity discharge lights now being used for street lighting and industrial applications

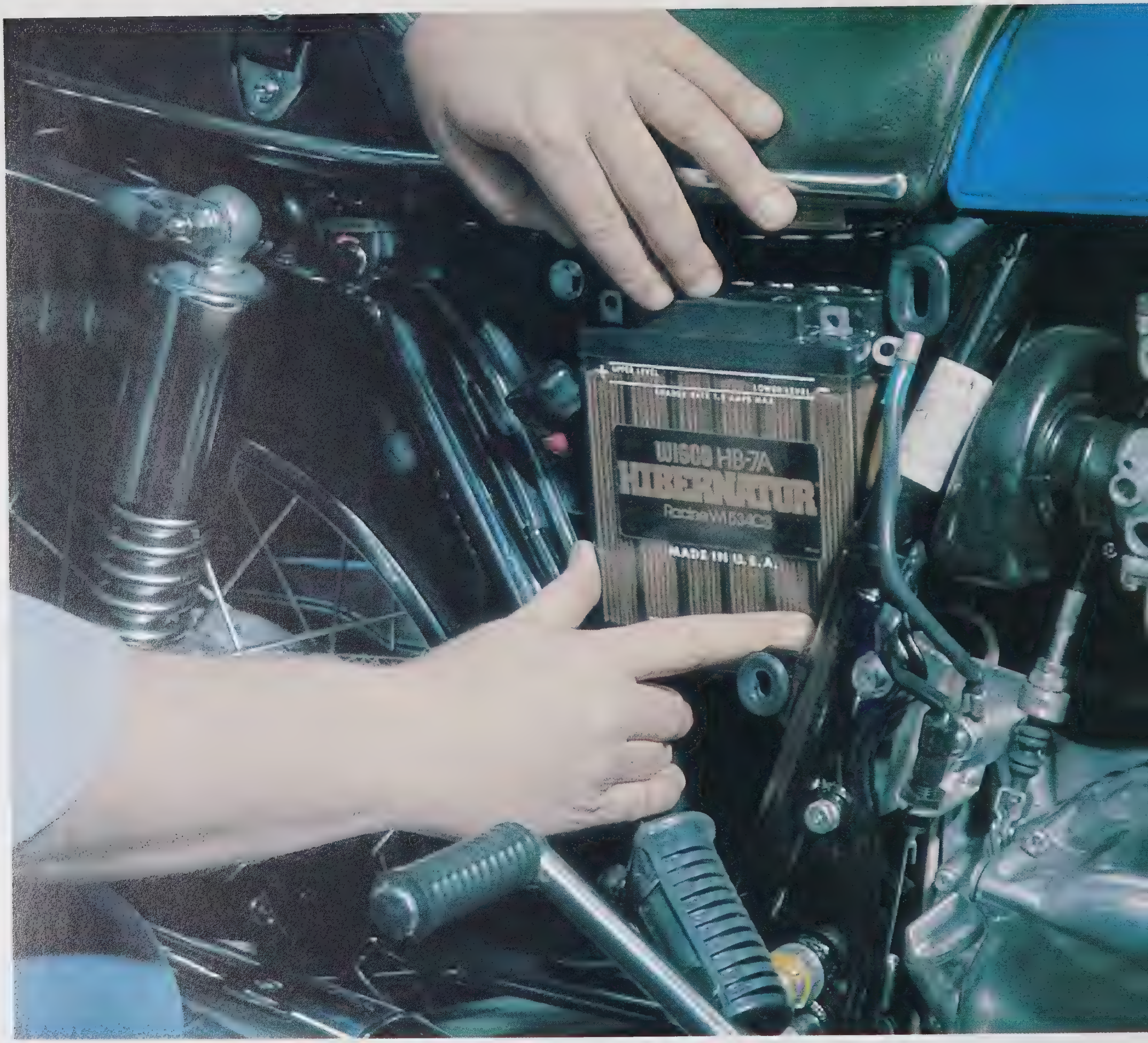
Technology

An organic electrolyte lithium battery system has been adapted at ESB's Technology Center to a nine-volt transistor radio battery. The battery will have twice the capacity of the commercially available alkaline batteries now in use. The new lithium cells will be marketed by the Ray-O-Vac Division

The second Lithicron** heart pacer, two-thirds the size and weight of ESB Medcor's first lithium-powered model introduced in 1975, was developed in 1976 and will be

*ESB trademark

**ESB Medcor trademark



The new ESB Wisco Hibernator* motorcycle battery, introduced in 1976, has up to 40 per cent longer storage life than the average wet battery.

*ESB trademark

produced and marketed later this year.

Under a contract with Argonne National Laboratories, ESB's Technology Center is developing concepts for electric vehicle batteries in competition with three other companies. The two-phased undertaking calls for improved "state of the art" batteries and longer-range advanced batteries.

As part of its continuing interest in electric vehicles, ESB is conducting research in advanced batteries, while participating in evaluations of total-vehicle systems. In addition, ESB has a contract with the U.S. Energy Research and Development Administration to study innovative lead-acid battery designs for electric vehicles.

Employees

At year-end, ESB had 17,071 employees, compared with 15,760 on December 31, 1975. Of these, 11,453 were employed in the United States, 917 in Canada, and 4,701 in 15 other countries.

Diversification

The Company continued its diversification efforts in three areas during 1976: internal developments, venture capital and, as noted earlier in this Report, oil and gas exploration.

A new subsidiary, The International Metals Reclamation Company, Inc. (Inmetco), was formed during the year to put into commercial operation an Inco process for converting waste from specialty steel mills into commercially useful metallurgical charge materials. Tests of the recycling process at the Company's research stations earlier in the year resulted in the conceptual design for a production plant which is being established at Ellwood City, Pennsylvania. It is scheduled to begin operations in mid-1978. Inmetco will represent an investment of some $30 million.

In another diversification move resulting from Inco research, the Company, late in the year, started a small business based on its development of an alloyed plastic that is capable of being electroplated directly, thus eliminating several costly processing steps.

New venture-capital investments were made in Canada, where a minority position was taken in United Tire & Rubber Co. Ltd.; in the United States, with the acquisition of minority positions in several small high-technology companies; and in Europe, where small investments were made in two advanced instrumentation companies in France.

A venture-capital program in Canada, sponsored by Inco, was announced in December 1976 to identify, train and provide financing to entrepreneurs. Through this program, the Company hopes to find new Canadian small-business investment opportunities.

Corporate Organization

Name Changes

Effective April 21, 1976, INCO LIMITED became the new name of The International Nickel Company of Canada, Limited with the approval of the shareholders. Reflecting this change, the Company's United Kingdom subsidiary, International Nickel Limited, adopted the name Inco Europe Limited and International Nickel (U.S.) Inc. became Inco United States, Inc.

Directors

John J. Deutsch, C.C., died on March 18, 1976.
Dr. Deutsch had been a member of the Board of Directors since 1967.

Dr. Reva Gerstein, a psychologist and educator, was elected a member of the Board of Directors on April 20, 1976.

At the Annual Meeting on April 21, 1976, shareholders approved a bylaw decreasing the number of Inco Directors from 25 to 22.

Officers

On May 1, 1976, Dr. Arthur J. R. Smith, who had been President of The Conference Board in Canada since 1971 and Chairman of the Economic Council of Canada from 1967 to 1971, joined the Company as a Vice-President. He has corporate responsibility for public affairs.

Effective September 1, 1976, Harold F. Hendershot, formerly Executive Vice-President of Huntington Alloys, Inc., was elected a Vice-President. He has responsibility for the overall direction of the Company's formed metal products group, which includes Huntington, Wiggin, Doncaster, Canadian Alloys and Daido Special Alloys Ltd., Japan, jointly owned by Inco and Daido Steel Co., Ltd.

ESB Incorporated

Corporate Headquarters: 5 Penn Center Plaza, Philadelphia, Pennsylvania 19103, U.S.A.

Edward J. Dwyer Chairman of the Board	Frederick J. Port President and Chief Executive Officer

Mr. Dwyer will retire as Chairman of the Board on February 22, 1977, after 36 years of service to ESB. He was elected President in 1959 and has been Chairman since 1972.

98 Plants in 17 Countries

Batteries and related electrical and electronic products:
28 plants in the U.S.; 9 in Canada; 5 in Brazil; 3 each in Japan and Venezuela; 2 each in Iran, Mexico, South Africa and the U.K.; and one in each of the following countries: Colombia, Dominican Republic, Guatemala, India, Morocco, Nicaragua, Peru and Zaire

Chemicals, Plastics and Other:
10 plants in the U.S.; 3 in Brazil; 2 in the U.K.; 1 in Mexico

Safety and Health Products:
8 plants in the U.S.; 2 in Canada; 1 in Mexico

Electric Motors:
4 plants in the U.S.; 2 in the U.K.; 1 in India

Technology Center:
Yardley, Pennsylvania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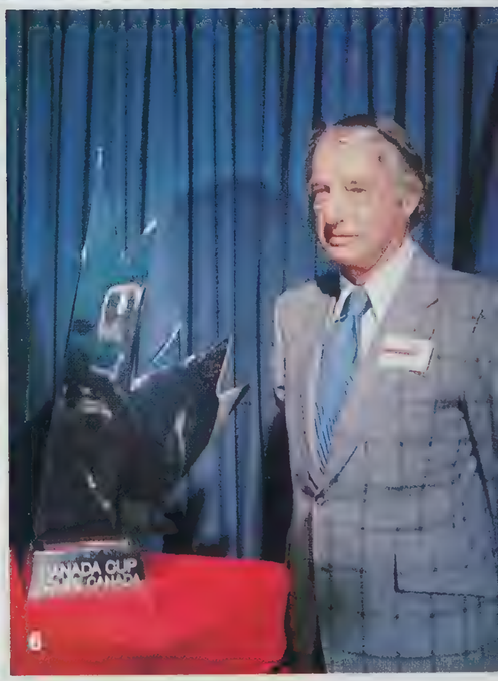
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The Company supports a great variety of social programs. These range from the sponsorship of concerts-in-the-park to making matching gifts for universities, from hospital contributions to cultural grants. Examples of these activities are shown here.

1 Inco's concerts-in-the-park are a regular summer attraction in Copper Cliff.

2 Monika Bailey, one of over 250 students who received scholarships or fellowships from Inco in 1976, is studying for her PhD at the University of Toronto.

3 The Art Gallery of Ontario receives support from Inco. Other cultural activities in Canada to which the Company contributes include the National Ballet of Canada, Canadian Opera Company, the symphony orchestras of Winnipeg and Toronto, and the Stratford and Shaw festivals.

4 Hairdressing time at the new Hereford, England, Geriatric Day Case Centre, built and equipped by contributions from Wiggin employees and the Company.

5 As a member of the Olympic Trust of Canada, Inco has made substantial contributions toward the training of Canadian amateur athletes.

6 John McCreedy, Inco Senior Vice-President and former professional hockey player with the Toronto Maple Leafs, unveils the Canada Cup world hockey trophy, for which Inco provided the nickel and manufacturing assistance.

7 One of the several shipments of earthquake relief supplies donated by Inco employees and the Company, arriving in Guatemala from Canada.

8 Pupils at Soroako, Indonesia, enjoy the modern school provided by Inco.

9 Wales versus France. The Company has contributed to support the training and coaching of schoolboy and youth rugby in Wales, where Inco's Clydach refinery is located.

10 Old friends meet at Retired Employees' Day, an annual event at Huntington Alloys, Inc., in Huntington, West Virginia.

Effective November 1, 1976, Dr. J. Stuart Warner, formerly an Assistant Vice-President, was elected a Vice-President He has corporate responsibility for environmental and occupational health policies and programs, as well as for special technical projects

Effective February 7, 1977, Ian McDougall, formerly Comptroller, was elected a Senior Vice-President. Mr McDougall has assumed the corporate responsibility for finance, which was formerly held by Charles F. Baird, Vice-Chairman

Also effective February 7, Harold R. Hiser, Jr., formerly Treasurer, was elected Comptroller

Effective the same date, Robert T. deGavre, formerly Assistant Treasurer, was elected Treasurer

Industrial Relations

A three-year collective agreement covering production and maintenance employees of the Manitoba Division was signed on February 25, 1976, and was submitted jointly by the Company and the United Steelworkers of America to the Anti-Inflation Board for approval. The Board rolled back the wage increases provided for by the agreement, and two work stoppages, totalling 14 days, followed in protest Upon appeal to the Administrator of the Anti-Inflation Program, the original agreement was substantially restored

In the United Kingdom, one-year agreements were signed with unions representing employees at the Wiggin rolling mill in Hereford, the Clydach refinery and the European Research and Development Centre in Birmingham. These agreements and a three-year agreement at Wiggin, made over the fourth quarter of 1976, conform to government wage-control legislation

P.T. International Nickel Indonesia has recognized a new bargaining unit of employees organized by the Federal Union of Workers, Indonesia

Employees

On December 31, 1976, there were 38,696 people employed by the Company in the primary metals, metals forming and related fields, compared with 37,755 at year-end 1975. Of the 1976 total, 23,690 were located in Canada, 7,711 in the United Kingdom, 3,901 in the United States, 2,421 in Indonesia, 680 in Guatemala, and 293 in other areas. These figures do not include the 17,071 employees of ESB

Shareholders

At year-end, the Company had 78,014 shareholders of record, compared with 84,369 on December 31, 1975. According to the Company's record of shareholders, 65 per cent had addresses in Canada, 33 per cent in the United States and 2 per cent elsewhere. Canadian residents of record held 49 per cent of the shares outstanding, United States residents of record 36 per cent, and residents of record in other countries 15 per cent

Charles F. Baird, Vice-Chairman

The Company's Senior Vice-Presidents, from left: Ashby McC. Sutherland, Kenneth A. DeLonge, William Steven, Ian McDougall, John McCreedy.

Consolidated Statement of Earnings (in thousands)

Year ended December 31	1976	1975
Revenues		
Net sales	$2,040,282	$1,694,768
Other income	34,310	28,675
	2,074,592	1,723,443
Costs and expenses		
Costs	1,324,608	1,071,636
Selling, general and administrative expenses	171,890	145,261
Depreciation and depletion	113,271	111,009
Interest expense	66,376	49,421
Pension expense	53,269	38,037
Currency translation adjustments	(2,001)	(14,018)
	1,727,413	1,401,346
Earnings before income and mining taxes	347,179	322,097
Income and mining taxes	150,421	135,208
Net earnings	$ 196,758	$ 186,889
Net earnings per share	$2.64	$2.51

Consolidated Statement of Retained Earnings (in thousands)

Year ended December 31	1976	1975
Retained earnings at beginning of year	$1,327,007	$1,259,402
Net earnings	196,758	186,889
Dividends paid ($1.60 per share in 1976 and 1975)	(119,323)	(119,284)
Retained earnings at end of year	$1,404,442	$1,327,007

The Explanatory Financial Section on pages 28 through 32 is an integral part of these statements

Auditors' Report

To the Shareholders of Inco Limited:

We have examined the financial statements appearing on pages 25 through 32 of this report. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Inco Limited and subsidiaries at December 31, 1976 and 1975 and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 17, 1977

PRICE WATERHOUSE & CO.

Consolidated Balance Sheet (in thousands)

December 31	1976	1975
Current assets		
Cash	$ 26,574	$ 38,454
Marketable securities	46,299	66,465
Accounts receivable	432,941	290,939
Inventories	879,774	726,075
Prepaid expenses	10,268	8,443
Total current assets	1,395,856	1,130,376
Property, plant and equipment	3,086,719	2,657,401
Less—Accumulated depreciation and depletion	967,304	872,354
	2,119,415	1,785,047
Other assets		
Investments in and advances to affiliates, on an equity basis	47,147	43,394
Miscellaneous securities	19,302	18,535
Charges to future operations	7,601	6,234
Unamortized cost in excess of net assets of business acquired	38,990	42,089
	113,040	110,252
Total assets	$3,628,311	$3,025,675
Current liabilities		
Notes payable	$ 380,580	$ 181,796
Accounts payable and accrued expenses	306,980	265,802
Long-term debt due within one year	21,418	10,244
Income and mining taxes payable	91,572	83,081
Total current liabilities	800,550	540,923
Other liabilities		
Long-term debt	849,569	611,236
Deferred income and mining taxes	368,800	342,300
Pension benefits	28,500	28,748
Minority interest	18,527	18,115
	1,265,396	1,000,399
Shareholders' equity		
Common shares without nominal or par value, issued 74,587,485 shares; 1975—74,568,386 shares	96,887	96,310
Capital surplus	61,036	61,036
Retained earnings	1,404,442	1,327,007
	1,562,365	1,484,353
Total liabilities and shareholders' equity	$3,628,311	$3,025,675

The Explanatory Financial Section on pages 28 through 32 is an integral part of these statements.

Approved by the Board of Directors:

L. Edward Grubb

J. Edwin Carter

Consolidated Statement of Changes in Financial Position (in thousands)

Year ended December 31	1976	1975
Financial resources were provided by		
Net earnings	$196,758	$ 186,889
Income charges (credits) not affecting working capital		
Depreciation and depletion	113,271	111,009
Deferred income and mining taxes	26,500	25,500
Equity in earnings of affiliated companies	(7,226)	(2,824)
Loss on disposals of property, plant and equipment	2,141	9,963
Amortization of cost in excess of net assets of business acquired	3,099	3,342
Currency translation adjustments not affecting working capital	(5,299)	(8,594)
Other—net	1,320	(209)
Working capital provided by operations	330,564	325,076
Long-term borrowings	268,128	82,967
Other—net	7,230	934
Total	605,922	408,977
Financial resources were used for		
Dividends paid to shareholders	119,323	119,284
Capital expenditures	459,056	332,664
Acquisition of business, net of working capital acquired	—	8,448
Reduction of long-term debt	21,690	7,153
Total	600,069	467,549
Increase (decrease) in working capital	$ 5,853	$ (58,572)

Analysis of changes in working capital

Increase (decrease) in current assets		
Cash and marketable securities	$ (32,046)	$(156,303)
Accounts receivable	142,002	(40,912)
Inventories	153,699	192,669
Prepaid expenses	1,825	1,174
Total	265,480	(3,372)
Increase (decrease) in current liabilities		
Notes payable and other debt	209,958	109,680
Accounts payable and accrued expenses	41,178	41,378
Income and mining taxes payable	8,491	(95,858)
Total	259,627	55,200
Increase (decrease) in working capital	$ 5,853	$ (58,572)

The Explanatory Financial Section on pages 28 through 32 is an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

This summary of the major accounting policies of Inco Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies have been followed consistently in all material respects for the periods covered in the financial statements.

Principles of consolidation—The financial statements consolidate the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, conform with those established in the United States.

Translation of financial statements into United States dollars—The financial statements are expressed in United States currency. Cash, accounts receivable, current liabilities, the liability for pension benefits and long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable. Revenues, expenses and certain costs are translated at weighted average rates prevailing during each period; inventoried costs, depreciation and depletion are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are applied to earnings currently.

Inventories—Inventories are stated at the lower of cost or net realizable value. Cost for certain metals inventories in the United States is determined by the last-in, first-out method. Cost for other metals is average production or purchase cost, and for supplies is average purchase cost. Cost for batteries and related products is determined principally on a first-in, first-out basis.

Property, plant and equipment—Substantially all property, plant and equipment is stated at cost. Such cost in the case of the Company's mines—virtually all of which were discovered and developed by the Company—represents, with relatively minor exceptions, only that part of related development and acquisition costs which was capitalized. All expenditures relating to the Indonesian and Guatemalan projects, presently under development, are capitalized.

Depreciation and depletion—Depreciation is calculated using the straight-line method based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years and are subject to periodic review. Depletion is calculated by a method which allocates the related recorded costs ratably to the tons of ore mined. Depletion is the systematic amortization of the recorded costs of the Company's mines and does not represent the decrease, if any, in the value of ore reserves as a result of ore mined.

Cost in excess of net assets acquired—The excess of purchase cost over the fair value of acquired net assets, relating to the acquisition in 1974 of ESB Incorporated, is amortized on a straight-line basis over 15 years.

Exploration—Except in areas currently under development where production is highly probable, exploration expenditures are expensed as incurred.

Research and development—Research and development expenditures, except for land, buildings and equipment, the usefulness of which extends beyond the immediate life of a project, are expensed as incurred. Research and development expense totalled $38,694,000 in 1976 and $36,331,000 in 1975.

Pension plans—The Company and its subsidiaries have several pension plans covering most employees. Costs are provided for, and funded, based on actuarial estimates. Past service costs at December 31, 1976 amounted to $140,000,000, the major portion of which will be charged to operations within the next 13 years. At December 31, 1976, vested benefits approximated the assets of the pension trust funds and balance sheet accruals.

Income and mining taxes—Deferred taxes are provided for timing differences that exist in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Investment tax credits are accounted for by the "flow-through" method. The amounts of credit were not material. The Company provides taxes on the undistributed earnings of subsidiaries to the extent such earnings are not considered to be permanently reinvested in the subsidiaries' operations.

Earnings per share—The calculation of earnings per share is based on the weighted average number of common shares outstanding. The common stock equivalents of outstanding stock options do not dilute earnings per share.

Note 2. Acquisitions

Effective August 17, 1975, the Company acquired Daniel Doncaster & Sons Limited, a producer of forged and machined products located in the United Kingdom, at a cost of $23,623,000. The acquisition has been accounted for as a purchase. Accordingly, the consolidated financial statements include Doncaster's assets and liabilities as of December 31, 1976 and 1975 and the results of its operations and changes in financial position for the periods then ended since its acquisition. Doncaster's net sales were $61,227,000 in 1976 and $26,320,000 in 1975 subsequent to its acquisition; the results of its operations were not significant in either period.

In January 1976, the United States Department of Justice filed a civil antitrust suit against the Company alleging that the acquisition of ESB Incorporated in 1974 was in violation of Section 7 of the Clayton Act and asking that the Company be required to divest itself of ESB. The Company believes that the acquisition does not entail anticompetitive consequences, and answers have been filed by the Company and ESB denying the material allegations of the complaint. The parties are engaged in pre-trial discovery proceedings.

Note 3. Other Income

Other income includes net gains on sales of assets, interest, dividends, income from equity interests in affiliates and joint ventures, and realized exchange gains and losses.

Note 4. Remuneration of Directors and Officers

Selling, general and administrative expenses include remuneration of directors and officers of the Company (including past officers) as follows:

Year ended December 31	1976	1975
	(in thousands)	
Aggregate remuneration—as directors (17 in 1976, 20 in 1975) paid by:		
Inco Limited	$ 210	$ 211
Aggregate remuneration—as officers (43 in 1976, 42 in 1975) paid or accrued by:		
Inco Limited	$3,817	$2,848
Subsidiaries of Inco Limited	204	151
	$4,021	$2,999

Seven directors were also officers in 1976 and 1975.

In addition to salaries, remuneration of officers reflects provisions for awards granted at various times in accordance with the Company's Key Employees Incentive Plan. Certain of these awards may be payable in future years based upon the market price of the Company's common shares and on the level of the Company's earnings. Provisions made from year to year with respect to these awards are based upon current year's market price of the common shares and on current year's earnings. Fluctuations in these provisions from 1975 to 1976 account for more than half of the increase in total remuneration.

Note 5. Inventories

Inventories consist of the following:

December 31	1976	1975
	(in thousands)	
Metals (at average cost)		
Finished and in-process	$545,866	$454,356
Supplies	90,913	67,984
	636,779	522,340
Metals (at last-in, first-out cost)		
Finished and in-process	108,074	88,897
Batteries and other products (at first-in, first-out cost)		
Finished and in-process	85,040	73,212
Raw materials and supplies	49,881	41,626
	134,921	114,838
Total	$879,774	$726,075

Note 6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31	1976	1975
	(in thousands)	
Mines and mining plants	$ 971,391	$ 921,307
Smelters	609,069	597,703
Refineries	325,123	317,586
Formed metal product facilities	299,654	278,902
Battery and related product facilities	143,540	125,352
Indonesian and Guatemalan projects, under development	655,002	338,710
Other	82,940	77,841
	3,086,719	2,657,401
Accumulated depreciation	742,629	669,952
Accumulated depletion	224,675	202,402
	967,304	872,354
	$2,119,415	$1,785,047

The provision for depreciation and depletion of $113,271,000 for 1976 includes depreciation of $90,998,000 and depletion of $22,273,000. The 1975 provision of $111,009,000 includes depreciation of $91,097,000 and depletion of $19,912,000.

Note 7. Long-Term Debt

Outstanding long-term debt consists of the following:

December 31	1976	1975
	(in thousands)	
Debentures, 6.85% due 1993	$150,000	$150,000
Debentures, 9.25% due 1990	72,343	73,800
Debentures, 7.50% due 1978	74,325	73,800
Debentures, 8.625% due 1991	74,325	73,800
Bank term loan, due 1981	50,000	50,000
Revolving credit loans, due 1978	20,000	20,000
Sterling loan, due 1982	33,990	40,470
Borrowings of Indonesian and Guatemalan subsidiaries	353,081	92,498
Other loans due 1977-2002, average rate 8.3% in 1976 and 1975	42,923	47,112
	870,987	621,480
Long-term debt due within one year	21,418	10,244
Long-term debt	$849,569	$611,236

The 6.85% debentures require sinking fund payments totalling $114,000,000 from 1979 through 1992 in annual installments ranging from $6,000,000 to $11,000,000. The 9.25% debentures require sinking fund payments of $2,000,000 (Cdn.) annually from 1977 through 1989. The

7.50% debentures are not subject to sinking fund requirements and are not redeemable prior to maturity. The 8.625% debentures require sinking fund payments of $2,000,000 (Cdn.) annually from 1977 through 1990.

The bank term loan to ESB of $50,000,000 bears interest at 1% above the prime rate, limited to a maximum cumulative average of 9%. The revolving credit agreement with three banks provides for prime interest rate loans of up to $40,000,000, with a minimum of $20,000,000 borrowed at all times. The agreement terminates June 30, 1978 with provision for a one-year extension at the option of ESB.

The sterling loan (£20,000,000) bears interest at 1¼% above the London interbank offered rate and is repayable in nine semiannual installments commencing December 1978.

The Company's majority-owned Indonesian and Guatemalan subsidiaries have entered into agreements with and have obtained commitments from various lenders and suppliers which provide for long-term credits of approximately $648,000,000 for the Indonesian subsidiary and $109,600,000 for the Guatemalan subsidiary. Fees averaging approximately ½ of 1% per annum are payable on the unused portions of these credits

At December 31, 1976, $304,366,000 had been drawn down by the Indonesian subsidiary at interest rates ranging from 6% to 11½% per annum. The Company has not extended a direct financial guarantee of the debt of the Indonesian subsidiary. The Company has agreed, subject to force majeure, to see to the provision of debt and to provide equity funds to the extent required by the Indonesian subsidiary to complete its project. The Company has also entered into a long-term purchase agreement covering approximately two-thirds of the production from the Indonesian project.

At December 31, 1976, $48,715,000 had been drawn down by the Guatemalan subsidiary at interest rates ranging from 6% to 10% per annum. The Company has agreed to provide loans and other forms of financial support to enable the subsidiary to complete and operate the project, to purchase the subsidiary's production on a long-term basis, and, if the subsidiary fails to make timely payments on its long-term debt, to make certain payments in respect of that debt in exchange for credits against future purchases of the subsidiary's production

Long-term debt maturities and sinking fund requirements for each of the five years through 1981 are:
1977—$21,418,000; 1978—$99,697,000;
1979—$65,970,000; 1980—$56,638,000;
1981—$109,586,000.

Interest expense on long-term debt was $42,767,000 (1975—$39,735,000). Interest of $16,747,000 (1975—$9,514,000), incurred in connection with the Indonesian and Guatemalan borrowings, has been capitalized.

At December 31, 1976, the Company had other unused lines of credit amounting to $420 million which includes $350 million representing back-up credit lines with several Canadian and U.S. banks in support of the Company's short-term borrowings in the commercial paper market.

Note 8. Income and Mining Taxes

The provisions for income and mining taxes were as follows:

Year ended December 31	1976	1975
	(in thousands)	
Future deferred	$ 26,500	$ 25,500
Current deferred	800	(3,300)
Total deferred taxes	27,300	22,200
Current taxes	123,121	113,008
	$150,421	$135,208
Canada	$102,465	$ 88,639
Other (principally United States and United Kingdom)	47,956	46,569
	$150,421	$135,208

The increased provision for taxes in 1976 is attributable primarily to improved earnings. Taxes also increased in 1976 due to lesser benefits from adjustments relating to prior years' tax issues and to lower allowances for depletion for Canadian income tax purposes as the Company's base of prior years' capital and exploration expenditures qualifying for earned depletion was exhausted.

The reconciliation between the combined statutory income tax rates and the effective income and mining tax rates follows:

Year ended December 31	1976	1975
	Percentage of earnings before income and mining taxes	
Combined Canadian federal-provincial statutory income tax rate	48.5%	37.0%
Canadian federal resource allowance	(8.9)	—
Canadian federal-provincial depletion	(5.3)	(7.3)
	(14.2)	(7.3)
Net Canadian statutory income tax rate	34.3	29.7
Canadian provincial mining taxes	11.5	11.0
Effective Canadian income and mining tax rate	45.8	40.7
Adjustments relating to prior years' tax issues	(1.2)	(3.4)
Difference between Canadian and other statutory income tax rates	0.5	3.2
Other	(1.8)	1.5
Effective income and mining tax rate	43.3%	42.0%

Effective January 1, 1976, Canadian federal income tax rules were changed to recognize a four percentage point statutory rate reduction, the removal of the 15 percentage point re-

source abatement and the introduction of a resource allowance, calculated at 25 per cent of resource income.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of $368,800,000 in the Consolidated Balance Sheet. The cumulative tax effect of timing differences relating to items of a current nature of $18,100,000 is included in the current liability for income and mining taxes payable.

Note 9. Stock Option Plans

The Key Employees Stock Option Plan (KESOP) was terminated in 1968 and all outstanding KESOP options expired in 1976. The Key Employees Incentive Plan (KEIP), ratified by shareholders in 1968, authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value, determined in accordance with the Plan, on the day the option is granted. The Plan provides that no shares subject to option shall be purchasable prior to the expiration of one year after the date of grant nor after a period not exceeding ten years from the date of grant.

On August 14, 1974, the Company authorized the substitution of its common shares (''1974 Plan'') to replace shares of common stock of ESB Incorporated (a company acquired in 1974) under options previously granted by ESB and held by certain of its key employees.

Directors who are not officers of the Company are not entitled to participate in the Plans. Changes during the year 1976 in options outstanding are summarized as follows:

	Number of Shares		
	KESOP Plan	KEIP Plan	1974 Plan
Outstanding at December 31, 1975	48,665	693,787	3,768
Granted to an officer at $33.42 a share	—	5,000	—
Exercised at average option price of $30.20 per share (5,275 shares by officers)	(12,300)	(5,699)	(1,100)
Expired	(36,365)	(11,776)	—
Outstanding at December 31, 1976 (306,200 shares for officers)	—	681,312	2,668
Shares available for grant at December 31, 1976	—	307,602	—

The average option price per share of the options outstanding at December 31, 1976 was $34.04 (range $25.48 - $45.88) for the KEIP Plan and $13.88 (range $13.10 - $18.24) for the 1974 Plan.

Note 10. Common Shares

The Company has authorized 90,000,000 Class A Common Shares and 90,000,000 Class B Common Shares. The two classes are interconvertible at any time and are similar in all respects, including dividend rights, except that dividends on Class B shares may be declared payable out of ''1971 capital surplus on hand'' as defined in the Income Tax Act of Canada. At December 31, 1976, there were 74,587,485 common shares issued and outstanding comprised of 41,490,509 Class A shares and 33,096,976 Class B shares. At December 31, 1975, there were 74,568,386 common shares issued and outstanding comprised of 41,852,267 Class A shares and 32,716,119 Class B shares.

Note 11. Anti-Inflation Program

Towards the end of 1975, the Canadian government introduced an anti-inflation program effective October 14, 1975 and scheduled to continue until December 31, 1978, which provides restraints on prices, profits, compensation and dividends. The Company believes that it was in compliance with the program for the years 1975 and 1976.

Note 12. Lines of Business Information

Year ended December 31	1976	1975
	(in thousands)	
Net sales		
Metals	$1,442,572	$1,198,043
Batteries and related products	485,981	412,742
Other*	111,729	83,983
	$2,040,282	$1,694,768
Earnings before income and mining taxes		
Metals	$ 308,621	$ 305,273
Batteries and related products	37,303	17,431
Other*	1,255	(607)
	$ 347,179	$ 322,097

*Comprises ESB's non-battery operations.

Note 13. Marketable and Miscellaneous Securities

Marketable securities and miscellaneous securities are carried at cost. At December 31, 1976 the excess of market value over cost was $400,000 (1975—$2,115,000) for marketable equity securities included in marketable securities and $11,980,000 (1975—$12,987,000) for such securities included in miscellaneous securities. Market value exceeded cost for all marketable equity securities at December 31, 1976 and 1975.

Note 14. Quarterly Financial Information (Unaudited)

Quarterly financial information for the year ended December 31, 1976 follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 1976
Net sales	$433,703	$516,542	$512,173	$577,864	$2,040,282
Earnings before income and mining taxes	$ 48,839	$ 99,251	$ 98,655	$100,434	$ 347,179
Net earnings	$ 23,285	$ 53,663	$ 58,936	$ 60,874	$ 196,758
Net earnings per share	$.31	$.72	$.79	$.82	$2.64

Note 15. Replacement Cost Information (Unaudited)

In accordance with regulations issued by the U.S. Securities and Exchange Commission in March 1976, many companies are required to disclose current replacement cost data relative to productive capacity, depreciation and depletion, inventories and costs. The replacement cost disclosure requirements for mineral resource assets and certain foreign assets, however, have been delayed for one year.

Mineral resource assets account for a very large proportion of the Company's total facilities. With respect to 1976, therefore, replacement cost will be reported primarily for the productive capacity (and the related depreciation) of ESB and those subsidiaries engaged in the manufacture of formed metal products. Such productive capacity, on an historic cost basis, represents less than 15 per cent of total property, plant and equipment

Historically, the Company has been able to maintain its profit margins on its metal products. In the last two years, however, these margins have been somewhat reduced primarily as a result of escalating production costs coupled with weak copper prices. Since its acquisition in 1974, ESB has generally maintained or improved the profit margins on its products.

Replacement of productive capacity has generally required a substantially larger investment than the original cost of the assets being replaced, reflecting the cumulative impact of inflation over the generally lengthy period during which the assets were in service. Over the past 10 years the Company has invested substantial amounts in the modernization and replacement of facilities as well as in the development of the Indonesian and Guatemalan projects.

Quantified replacement cost data will be disclosed in the Company's 1976 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Note 16. Subsequent Event

On February 7, 1977, the Board of Directors enacted a bylaw which provides for increases in the authorized share capital of the Company by increasing the authorized number of both the Class A Common Shares and Class B Common Shares from 90 million to 100 million shares each, and by creating a new class of 30 million preferred shares issuable in series. The bylaw is subject to approval at the shareholders' meeting to be held April 20, 1977.

The Company is arranging to sell 10 million of the new class of preferred shares to a limited number of Canadian institutional investors for $250 million (Cdn.), subject to obtaining all necessary commitments and approvals. The 10 million preferred shares, which will not have general voting rights, will have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus 1¼ per cent. The shares will be redeemable at the option of the Company commencing in 1980 at a premium of three per cent over their $25.00 (Cdn.) par value, such premium declining thereafter by ¾ of one per cent per annum, and redeemable at par commencing in 1984. The shares will be retractable at par, at the option of the holder, in 1987

Quarterly Data

Year ended December 31	1976	1975
Net sales (in thousands)		
First quarter	$ 433,703	$ 419,449
Second quarter	516,542	413,912
Third quarter	512,173	417,423
Fourth quarter	577,864	443,984
Year	$2,040,282	$1,694,768
Net earnings (in thousands)		
First quarter	$ 23,285	$ 56,933
Second quarter	53,663	54,257
Third quarter	58,936	39,991
Fourth quarter	60,874	35,708
Year	$ 196,758	$ 186,889
Net earnings per share		
First quarter	$ .31	$ .76
Second quarter	.72	.73
Third quarter	.79	.54
Fourth quarter	.82	.48
Year	$2.64	$2.51
Dividends paid per share		
First quarter	$ .35	$ .35
Second quarter	.35	.35
Third quarter	.35	.35
Fourth quarter	.55	.55
Year	$1.60	$1.60

Market price range per share

Year ended December 31	1976	1975
New York Stock Exchange		
First quarter	$35 - 25⅛	$25¾ - 21⅜
Second quarter	37 - 31⅞	29⅛ - 24⅝
Third quarter	36¼ - 32½	29 - 25
Fourth quarter	33⅝ - 28⅛	26⅛ - 23
Toronto Stock Exchange (Canadian dollars)		
First quarter	$34⅜ - 25½	$26 - 21¼
Second quarter	35⅞ - 31½	30 - 24½
Third quarter	35¼ - 32	29¾ - 25⅝
Fourth quarter	33⅜ - 28⅛	26⅞ - 23½

Pension Trust Funds

The Company and its subsidiaries have several pension plans covering most employees. Irrevocable pension trust funds, which are separate and distinct from the accounts of the Company and its subsidiaries, have been established to implement these pension plans. The funds consist of Government bonds and other marketable securities at cost, cash and other assets. Trust fund operations are summarized as follows:

Year ended December 31	1976	1975
	(in thousands)	
Balance in funds at beginning of year	$341,706	$321,915
Company contributions	44,018	34,720
Employee contributions	324	331
Income from investments	22,990	9,043
	409,038	366,009
Benefits paid	27,649	24,303
Balance in funds at end of year	$381,389	$341,706

A copy of the 1976 Annual Report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to The Secretary, Inco Limited at Toronto-Dominion Centre, Toronto, Ontario M5K 1E3 or at One New York Plaza, New York, New York 10004.

In 1974, the Company experienced unprecedented worldwide demand for its metals. Metals sales were a record $1,451 million, as deliveries of nickel, copper and rolling mill products reached an all-time high. Also in 1974, the Company inaugurated a program to reduce dependence on its traditional business by diversifying into other fields. The Company entered into the packaged power industry with the acquisition of ESB Incorporated for $234 million, effective August 1, 1974. During the five months subsequent to its acquisition in 1974, ESB had sales of $234 million

World demand for nickel fell sharply in 1975. The resultant decrease in the Company's nickel deliveries, coupled with a 29-cent-a-pound decrease in the average price realized on copper deliveries, was primarily responsible for metals sales declining to $1,198 million in 1975. This decline was moderated by improved prices for nickel and rolling mill products and by a $26 million contribution to sales from Daniel Doncaster & Sons Limited subsequent to its acquisition effective August 17, 1975. Doncaster and the rolling mills constitute the formed metal products portion of the Company's metals business. ESB's sales for the year 1975 were $497 million.

Net sales in 1976 increased 20 per cent over 1975. Metals sales rose to $1,442 million on the strength of increased deliveries of nickel and precious metals and improved prices for nickel and copper. Although sales of rolling mill products decreased 12 per cent from the 1975 record levels, total sales of formed metal products declined only one per cent. Doncaster contributed $61 million to sales in 1976. ESB's sales of batteries and other products reached a record $598 million in 1976, an increase of 20 per cent over 1975, reflecting a high level of demand for its products throughout the year.

Costs in the metals business were $701 million in 1974, $694 million in 1975, and $878 million in 1976. Changes in these costs from year to year reflect fluctuations in the volume of deliveries of the Company's metal products and the effect of rising labor, supply and energy costs. Additionally, brief strikes at the Ontario Division in 1975 adversely affected costs disproportionately to the time periods involved. ESB's costs were $187 million in the five months of 1974 subsequent to its acquisition, $378 million in 1975 and $447 million in 1976. These increases primarily reflect ESB's higher level of business

In 1975, taxes other than income and mining taxes increased $14 million over 1974, basically as a result of recognizing ESB's operations for the full year, and in 1976 such taxes increased an additional $22 million due mainly to higher payroll taxes. Additionally, interest expense increased $17 million in 1976, consistent with the increase in notes payable, and pension expense increased $15 million partly due to improved benefits

Ten-Year Review

	1976
Summary of operations (in thousands)	
Net sales	$2,040,300
Costs (1)(2)	$1,324,600
Interest expense	$ 66,400
Income and mining taxes (1)	$ 150,400
Net earnings (1)	$ 196,800
Per share (1)(3)	$ 2.64
Dividends	$ 119,300
Per share (3)	$ 1.60
Shares outstanding (weighted average) (3)	74,576
Other financial data (in thousands)	
Capital expenditures (4)	$ 459,100
Exploration expenditures (4)	$ 36,100
Working capital (1)	$ 595,300
Net property, plant and equipment	$2,119,400
Total assets (1)(5)	$3,628,300
Shareholders' equity (1)	$1,562,400
Return on total assets (1)	5.4%
Return on shareholders' equity (1)	12.6%
Operating data (in thousands)	
Ore mined—short tons	19,800
Nickel production—pounds (6)	461,600
Nickel deliveries—pounds (6)	409,800
Copper deliveries—pounds	356,000
Platinum-group metals and gold deliveries—troy ounces	554
Other statistics	
Employees—metals business	38,696
—ESB Incorporated	17,071
Shareholders	78,014

(1) Periods prior to 1975 have been restated to reflect where required retroactive application of changes in certain accounting practices adopted by the Company in 1975. The effect of these changes was not material.
(2) As in the Company's classification of costs in the Consolidated Statement

Currency translation adjustments, which in the Company's case arise mainly from fluctuations in the relative values of the Canadian dollar, pound sterling and the U.S. dollar, reduced net earnings by $7 million in 1974 and increased earnings by $14 million and $2 million, respectively, in 1975 and 1976.

In the period 1974 through 1976, more than 75 per cent of the Company's aggregate income and mining tax expense related to Canadian operations. The Canadian tax system was altered substantially in 1974 as changes in Canadian federal income taxes and Ontario mining and Manitoba royalty taxes became effective during the year, resulting in a higher level of taxation on the mining industry in Canada. Since 1974, changes in the Company's income and mining tax expense have essen-

1975	1974	1973	1972	1971	1970	1969	1968	1967
1,694,800	1,684,600	1,172,800	900,300	789,200	1,055,800	684,200	767,300	713,200
1,071,600	888,400	643,300	594,400	525,300	619,200	431,400	470,500	434,700
49,400	45,000	42,300	43,800	33,900	17,100	13,400	6,500	—
135,200	248,400	120,500	42,600	23,500	121,400	58,100	87,200	78,300
186,900	298,600	225,600	112,100	90,300	207,400	115,200	140,800	143,400
2.51	4.01	3.02	1.50	1.21	2.78	1.54	1.89	1.92
119,300	119,300	89,400	74,500	96,900	104,200	89,300	91,500	89,100
1.60	1.60	1.20	1.00	1.30	1.40	1.20	1.23	1.20
74,552	74,541	74,535	74,525	74,499	74,435	74,401	74,363	74,255
332,700	149,200	88,800	125,200	244,200	272,500	175,200	175,400	145,700
30,100	19,900	17,800	18,700	32,900	31,900	19,900	17,000	13,300
589,500	648,000	537,800	395,700	387,300	375,800	356,300	430,800	321,000
1,785,000	1,560,200	1,395,400	1,402,200	1,351,900	1,167,700	940,000	798,300	652,200
3,025,700	2,799,700	2,248,800	2,078,300	2,094,800	1,827,400	1,477,000	1,396,200	1,120,300
1,484,400	1,416,400	1,236,900	1,100,700	1,062,800	1,067,900	963,100	936,300	886,000
6.2%	10.7%	10.0%	5.4%	4.3%	11.3%	7.8%	10.1%	12.8%
12.6%	21.1%	18.2%	10.2%	8.5%	19.4%	12.0%	15.0%	16.2%
21,200	22,000	19,700	19,200	27,600	27,700	18,300	24,300	19,900
458,900	509,600	469,200	401,200	463,400	500,900	342,000	436,400	421,700
351,100	549,100	517,000	425,100	342,500	518,900	382,200	480,800	463,500
334,600	367,200	327,100	308,200	340,300	348,100	208,200	314,200	310,900
301	317	413	452	437	388	422	441	476
37,755	32,459	31,311	32,082	36,089	37,313	34,321	33,314	32,552
15,760	16,503							
84,369	86,795	90,660	92,024	92,217	84,320	84,219	75,587	64,207

of Earnings.

(3) As adjusted to reflect the split of shares on a 2½ for 1 basis in 1968

(4) Includes capitalized exploration expenditures

(5) Does not include any value for the minerals in the major portion of the Company's ore reserves

(6) In years prior to 1972, the Company purchased finished nickel from various sources which is not included in nickel production. Resales of such nickel are included in nickel deliveries

tially been consistent with changes in the levels of earnings from year to year. Recognizing existing tax legislation, the Company's effective income and mining tax rate is expected to be about 50 per cent in 1977.

On January 19, 1976, the United States Department of Justice filed a civil antitrust suit against the Company alleging that the acquisition of ESB was in violation of Section 7 of the Clayton Act and asking that the Company be required to divest itself of ESB. The Company believes that the acquisition does not entail anti-competitive consequences, and answers have been filed by the Company and ESB denying the material allegations of the complaint. The parties are engaged in pre-trial discovery proceedings.

On February 7, 1977, the Board of Directors enacted a bylaw which provides for increases in the authorized share capital of the Company by increasing the authorized number of both the Class A Common Shares and Class B Common Shares from 90 million to 100 million shares each, and by creating a new class of 30 million preferred shares issuable in series. The bylaw is subject to approval at the shareholders' meeting to be held April 20, 1977. The Company is arranging to sell 10 million of the new class of preferred shares to a limited number of Canadian institutional investors for $250 million (Cdn.), subject to obtaining all necessary commitments and approvals. The 10 million preferred shares, which will not have general voting rights, will have a cumulative floating rate dividend equal to half of the Canadian prime rate plus 1¼ per cent

Directors

(Term expires 1977)

Charles F. Baird
Vice-Chairman of the Board

David W. Barr
Chairman of the Board, Moore Corporation Limited, Toronto (business forms)

Robert W. Bonner, Q.C.
Chairman of the British Columbia Hydro & Power Authority and a partner in the law firm of Bonner & Fouks, Vancouver

Wm. Ward Foshay
Lawyer—Partner in the firm of Sullivan & Cromwell, New York

Reva Gerstein, C.M.
Psychologist and educator

L. Edward Grubb
Chairman of the Board and Chief Officer

G. Arnold Hart, M.B.E.
Chairman of the Executive Committee of the Board of Directors, Bank of Montreal, Montreal

John McCreedy
Senior Vice-President

William Steven
Senior Vice-President

Donald G. Willmot
Chairman of the Board, The Molson Companies Limited, Toronto (brewing, retailing and diversified manufacturing)

Samuel H. Woolley
Former Chairman of the Board, The Bank of New York, New York

Term expires 1978)

Edwin Carter
President

Peter D. Curry
President, Power Corporation of Canada, Limited, Montreal (investment, management and transportation)

A. DeLonge
nior Vice-President

Albert P. Gagnebin
rmer Chairman of the Board

Peter Gordon
hairman of the Board and Chief Executive Officer, The Steel Company of Canada, Limited, Toronto

James H. Goss
Chairman, The Pantasote Company, Greenwich, Connecticut (plastic and rubber products)

Allen T. Lambert, O.C.
Chairman of the Board and Chief Executive Officer, The Toronto-Dominion Bank, Toronto

The Rt. Hon. Lord Nelson of Stafford
Chairman of the Board, The General Electric Company Limited, London, England

George T. Richardson
President, James Richardson & Sons, Limited, Winnipeg (financial, grain and management holding company)

Lucien G. Rolland
President, Rolland Paper Company, Limited, Montreal

Ashby McC. Sutherland
Senior Vice-President

Executive Committee

L. Edward Grubb, Chairman
David W. Barr
J. Edwin Carter
Wm. Ward Foshay
James H. Goss
G. Arnold Hart, M.B.E.
Allen T. Lambert, O.C.

Audit Committee

Samuel H. Woolley, Chairman
David W. Barr
J. Peter Gordon
Allen T. Lambert, O.C.
Lucien G. Rolland

Officers

L. Edward Grubb
Chairman and Chief Officer

J. Edwin Carter
President

Charles F. Baird
Vice-Chairman

Senior Vice-Presidents
Kenneth A. DeLonge
John McCreedy
Ian McDougall
William Steven
Ashby McC. Sutherland

Vice-Presidents
W. Roy Aitken
Frank C. Burnet
Walter Curlook
David C. Dawson
Harold F. Hendershot
Charles E. O'Neill
Terrence Podolsky
Dean D. Ramstad
Arthur J. R. Smith
J. Stuart Warner

Shane MacKay
Regional Vice-President

Robert T. deGavre
Treasurer

Harold R. Hiser, Jr.
Comptroller

Donald C. McGavin, Q.C.
Secretary

George L. Sutton
Chief Legal Officer

Chief officers of principal subsidiaries and divisions

Joseph J. Borgatti
President
Exmibal, Guatemala City

Richard Doncaster
Chairman
Daniel Doncaster & Sons Limited
Sheffield, England

Philip C. Jessup, Jr.
Managing Director
P.T. International Nickel Indonesia,
Jakarta

Winton K. Newman
President
Manitoba Division,
Thompson

John H. Page
President
Inco United States, Inc.
New York

Donald J. Phillips
Chairman
Inco Europe Limited,
London, England

Frederick J. Port
President
ESB Incorporated,
Philadelphia, Pennsylvania

Anthony T. Shadforth
Chairman
Henry Wiggin & Company Limited, Hereford, England

Robert W. Simmons
President
Huntington Alloys, Inc.,
Huntington, W. Va.

Ronald R. Taylor
President
Ontario Division,
Sudbury

INCO Limited

Executive Offices:
Toronto-Dominion Centre, Toronto, Ontario M5K 1E3 (416) 362-6311
One New York Plaza, New York, N.Y. 10004, U.S.A. (212) 742-4000

Principal subsidiary companies

Inco United States, Inc.
One New York Plaza
New York, N.Y. 10004
U.S.A.

Inco Europe Limited
Thames House
Millbank, London, SW1P 4QF
England

P. T. International Nickel Indonesia
Jalan Melawai V1/8, Kebayoran Baru
Jakarta
Indonesia

Exmibal
Edificio Valenzuela, 14 Calle 6-12
Zona 1, Guatemala City
Guatemala

Huntington Alloys, Inc.
Huntington, West Virginia 25720
U.S.A.

Henry Wiggin & Company Limited
Holmer Road
Hereford, HR4 9SL
England

Daniel Doncaster & Sons Limited
Birley House
Wadsley Bridge, Sheffield, S6 1ET
England

ESB Incorporated
5 Penn Center Plaza
Philadelphia, Pennsylvania 19103
U.S.A.

Major Operating Groups
Automotive—Cleveland, Ohio
Exide Industrial—Philadelphia
Ray-O-Vac—Madison, Wisconsin
Universal Electric Company—
Owosso, Michigan
Willson—Philadelphia

Technology Center
Yardley, Pennsylvania

Other subsidiaries include

Canada
Canadian Nickel Company Limited
Toronto
International Sales Limited
Toronto

United States
The International Nickel Company, Inc.
New York
The International Metals Reclamation Company, Inc. (INMETCO)
Ellwood City, Pennsylvania
American Copper & Nickel Company, Inc.
New York

Europe
International Nickel B.V.
The Hague
International Nickel Benelux S.A.
Brussels
International Nickel Deutschland G.m.b.H.
Düsseldorf
International Nickel France S.A.
Paris
International Nickel Iberica Limited
Madrid
International Nickel Italia S.p.A.
Milan
International Nickel Océanie, S.A.
Paris
International Nickel Svenska AB
Stockholm
International Nickel UK Limited
London
International Nickel Gesellschaft m.b.H.
Vienna
Wiggin Alloys S.A.
Brussels
Wiggin Alloys G.m.b.H
Düsseldorf

South America
International Nickel do Brasil Comercial Ltda.
Sao Paulo
Mineraçao Serras do Sul Ltda
Rio de Janeiro

Asia
Inco East Asia Ltd.
Tokyo Branch
International Nickel Japan Ltd.
Tokyo
International Nickel (India) Private Limited
Bombay

Australia
International Nickel Australia Limited
Melbourne

Principal properties, plants, laboratories and products

Mines
Shebandowan, Ontario—Shebandowan
Sudbury, Ontario—Coleman, Copper Cliff North, Copper Cliff South, Crean Hill, Creighton, Frood-Stobie, Garson, Levack, Levack West, Little Stobie and Victoria
Thompson, Manitoba—Birchtree, Pipe and Thompson

Concentrators
Shebandowan, Ontario
Sudbury, Ontario—Clarabelle, Copper Cliff, Frood-Stobie and Levack
Thompson, Manitoba

Smelters
Sudbury, Ontario
Thompson, Manitoba

Iron ore recovery plant
Sudbury, Ontario—Iron ore and nickel oxide

Matte refining
Sudbury, Ontario—Nickel oxide sinter, Incomet nickel and refined nickel sulphide

Refineries
Port Colborne, Ontario—Nickel metal, foundry additives, semi-refined platinum-group metals and osmium
Thompson, Manitoba—Nickel metal and elemental sulphur
Sudbury, Ontario—Nickel pellets and powders, copper, gold, silver, selenium, tellurium, semi-refined platinum-group metals and nickel sulphate
Clydach, Wales—Nickel pellets and powders; and nickel and cobalt salts and oxides
Acton (London), England—Platinum, palladium, rhodium, ruthenium and iridium

Research laboratories and pilot plants
Sheridan Park (Mississauga), Sudbury and Port Colborne, Ontario
Sterling Forest, New York, and Harbor Island, North Carolina, U.S.A.
Birmingham, England, and Clydach, Wales

Metal forming mills
Rolling Mills—Huntington, West Virginia, and Burnaugh, Kentucky, U.S.A.; Hereford, England; Walden, Ontario—Wrought nickel and high-nickel alloys
Forging Plants—Sheffield, Hull, Dudley, Leeds, Oldham and Manchester, England; Blaenavon, Wales—Forged and machined products of nickel and high-nickel alloys; stainless, carbon and alloy steels; titanium and bronze
Research Laboratories—Huntington, West Virginia, U.S.A.; Hereford and Sheffield, England

Counsel
Osler, Hoskin & Harcourt
Toronto, Ontario
Sullivan & Cromwell
New York, N.Y.

Auditors
Price Waterhouse & Co.

Transfer agents
Canada Permanent Trust Company
Toronto, Ontario
The Royal Trust Company
Montreal, P.Q.
Canada Permanent Trust Company
Calgary, Alberta
Bankers Trust Company
New York, N.Y.
The Royal Trust Company of Canada
London, England

Registrars
Montreal Trust Company
Toronto, Ontario
Montreal Trust Company
Montreal, P.Q.
Montreal Trust Company
Calgary, Alberta
Morgan Guaranty Trust Company of New York
New York, N.Y
Lloyds Bank Limited
London, England

Printed in Canada

million were determined to be obsolete and were written off to costs and expenses in the second quarter of 1973.

On August 7, the board of directors declared a quarterly dividend of 25 cents (U.S.) a share, payable September 20 to shareholders of record August 21. Effective with this dividend, shareholders with Canadian addresses will receive their dividends in the Canadian dollar equivalent unless they notify the Company prior to the record date that they wish to continue to receive U.S. dollars. Dividends of 25 cents (U.S.) a share were paid on June 20 and March 20, 1973.

The June 30, 1973 balance sheet reflects minority interests in subsidiaries including some $6 million the Company received in June 1973 from Japanese companies for a 25% interest in its Indonesian company, P.T. International Nickel Indonesia.

During the first half of the year, capital expenditures amounted to $31 million, compared with $66.4 million during the same period last year. On June 28th, the Company officially opened its new nickel mine and mill complex at Shebandowan in northwestern Ontario. The mine has a weekly capacity of 15,000 tons of ore yielding some 3,000 tons of concentrate through the mill which will be further processed at the Company's smelter at Copper Cliff, Ontario.

Chairman *President and Chief Officer*

August 7, 1973

Printed in Canada

Interim Report to Shareholders

for the six months ended June 30, 1973

THE INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED

Sudbury, Ontario

To the Shareholders:

Earnings for the first six months of 1973 were $92.5 million, equivalent to $1.24 a common share, or an increase of 89% compared with $49 million, or 65 cents a share, for the first half of 1972.

Second-quarter earnings were $56.4 million, or 76 cents a share, an increase of 86% over the $30.3 million, or 40 cents a share, earned in the comparable period in 1972. The first-quarter 1973 earnings were $36.1 million or 48 cents a share.

Net sales for the first six months of this year totalled $534.4 million, compared with $441.4 million for the first half of 1972. Second-quarter sales amounted to a record $301.9 million, compared with $245.5 million for the corresponding quarter last year and $232.5 million for the first quarter of 1973.

The increase in this year's first six months and second-quarter earnings over the comparable prior year periods was due principally to increased sales volume, better prices for the Company's products and continuing improvement in operating efficiency. Higher deliveries of nickel and rolling mill products and better prices for copper were the principal factors in the improvement of second-quarter earnings over the first quarter of this year.

In the first six months of this year, deliveries of nickel in all forms amounted to 236 million pounds, compared to 205 million pounds in the comparable period in 1972. Copper deliveries totalled 170 million pounds in the first six months of 1973, compared with 163 million pounds in the first six months of last year. Deliveries of rolling mill products for the first six months of 1973 were up slightly over the first six months of 1972 despite the effects of a six-week strike at the Huntington Alloy Products Division in West Virginia which ended on February 23, 1973.

In connection with the Company's continuing review of facilities and equipment, fixed assets having a net book value of approximately $8

Consolidated Financial Statements

JUNE 30, 1973

(In Thousands of Dollars)

Earnings

	1973 Six Months	1972 Six Months	1973 Second Quarter	1972 Second Quarter
Net sales	$534,369	$441,399	$301,913	$245,498
Costs and expenses	339,586	328,617	185,428	181,649
Operating earnings before items shown below	194,783	112,782	116,485	63,849
Other income	6,766	4,239	4,465	2,535
	201,549	117,021	120,950	66,384
Other expenses				
Depreciation and depletion	36,507	27,657	18,877	13,720
Interest expense	21,582	22,129	11,015	11,195
Retirement system and pension plans	9,846	5,061	5,922	2,517
Income taxes	41,069	13,184	28,694	8,651
	109,004	68,031	64,508	36,083
Net earnings	$ 92,545	$ 48,990	$ 56,442	$ 30,301
Net earnings per share	$1.24	$0.65	$0.76	$0.40
Shares outstanding at end of period	74,535,085	74,523,488	74,535,085	74,523,488

Balance Sheet

	June 30, 1973	Dec. 31, 1972		June 30, 1973	Dec. 31, 1972
Cash and securities	$ 104,536	$ 49,498	Accounts payable including current taxes	$ 192,385	$ 183,830
Accounts receivable	210,403	163,888	Notes payable and other obligations	57,995	73,621
			Long-term debt	427,315	433,871
Inventories	409,840	436,025	Deferred income taxes	271,200	257,700
Other assets	28,249	26,675	Other liabilities	56,523	42,185
			Common shares	95,726	95,711
Property, plant and equipment (net)	1,394,780	1,402,218	Retained earnings and capital surplus	1,046,664	991,386
	$2,147,808	$2,078,304		$2,147,808	$2,078,304

These statements are expressed in United States currency and are subject to final adjustment and audit at the year end.

AR37

nco

Toronto-Dominion Centre • Toronto • Ontario M5K 1E3

L. E. Grubb
Chairman and Chief Officer

FILE

August 9, 1974

To the Shareholders:

Through a tender offer which is continuing, Inco has already acquired more than 90 per cent of the stock of ESB Incorporated, an important multi-line battery producer with operations in the United States, Canada and many other countries. We are sure you will be interested in the background and reasons for your company's decision to enter into this new line of business.

Inco's consideration of diversification possibilities commenced almost two years ago. Since that time, your company has developed a long-range plan aimed at achieving more rapid growth of earnings and improving their quality and stability. This plan provides for diversification through acquisitions, internal developments and venture capital investments.

Before deciding upon the battery business as an industry that met our objectives, Inco studied some twenty industries. The battery industry turned out to be the logical first choice. It has had an excellent growth record and good profits in the past. Furthermore, expanding energy needs, coupled with the demand for fume-free power to meet more stringent environmental requirements, make future prospects highly promising.

Among the principal battery companies, ESB, a leader in the industry with a reputation for quality products and services, was an obvious choice. It has sound management, a broad product range, strong research and development capability, an excellent growth record and a promising future.

As a subsidiary of Inco, ESB will operate with a high degree of autonomy under the management that has so ably directed its growth through the years. We expect it to make an important contribution to Inco, not only in terms of profits but also in terms of people.

Inco has no intention of slackening its efforts in the mining industry. Our confidence in that industry — and particularly our confidence in the future of nickel — are clearly demonstrated by the continuing development of our important mineral resources in Canada and by our new laterite projects in Indonesia and Guatemala.

However, in the years ahead, Inco plans to continue diversification of its business in an orderly fashion.

Sincerely yours,

Edward Grubb

INCO

Executive Offices

Toronto-Dominion Centre, Toronto, Ontario M5K 1E3
One New York Plaza, New York, N.Y. 10004, U.S.A.

Printed in Canada

INCO

Second Quarter Report 1976

INCO LIMITED

To the Shareholders:

The Company's earnings for the second quarter of 1976 were $53.6 million, or 72 cents a common share, compared with restated earnings of $54.3 million, or 73 cents a share, for the second quarter of 1975. Earnings for the first six months of 1976 were $76.9 million, or $1.03 a share, compared with restated earnings of $111.2 million, or $1.49 a share, in the corresponding period in 1975.

Net sales for the second quarter totalled $516.5 million, compared with $413.9 million for the second quarter of 1975. Sales for the first six months amounted to $950.2 million, compared with $833.4 million for the corresponding period last year. Sales by ESB Incorporated accounted for 29 per cent of the Company's first half 1976 sales and 27 per cent of first half 1975 sales. Daniel Doncaster & Sons Limited, a company acquired effective August 17, 1975, accounted for 4 per cent of the Company's first half 1976 sales.

This year's second quarter earnings, as compared with the same period last year, were adversely affected principally by unfavorable currency translation adjustments, a $2.5 million reduction in the current period's earnings as compared with an $11.9 million credit last year, by continuing increases in unit costs and expenses in our metals business, and by lower prices for platinum-group metals. These adverse effects were almost entirely offset by benefits from increased deliveries of nickel at improved prices, higher deliveries of platinum-group metals, higher copper prices, and ESB's substantially improved contribution to earnings. Earnings for the second quarter of $53.6 million, or 72 cents a share, represent a substantial improvement over this year's first quarter earnings of $23.3 million, or 31 cents a share, and reflect the continuing improvement in our metals business commented on by the Chairman at the Company's Annual Meeting in April.

Major factors contributing to the decline in this year's first half earnings from the comparable period last year were unfavorable currency translation adjustments, increased unit costs and expenses in our metals business, reduced rolling mill product deliveries, and lower prices for platinum-group metals. This decline in earnings was moderated by improved prices for primary nickel, increased deliveries of platinum-group metals, and a continuing improvement in ESB's contribution to earnings.

In the first six months, deliveries of nickel in all forms amounted to 176 million pounds, compared with 181 million pounds in the comparable period in 1975. Copper deliveries totalled 193 million pounds in the first six months, compared with 173 million pounds in the first half of last year.

During the second quarter, the Company made two announcements concerning its ongoing diversification program. The first of these involved plans for a new reclamation facility to convert specialty steelmaking waste products into commercially useful metals. The project will be operated by a newly formed subsidiary, The International Metals Reclamation Company, Inc. (INMETCO). The resource-conservation facility, scheduled to begin operation by mid-1978, will have initial capacity to process annually more than 40,000 tons of specialty-steel-mill wastes which it will convert into a nickel-chromium stainless steel remelt alloy. The facility will be situated in the Pittsburgh area, the source of the bulk of the waste-product feed for the plant. The project, believed to be the first of its type scheduled to reach a commercial stage, is based on a proprietary process invented, developed and pilot-tested in the Company's research facilities. Capital investment in the project will eventually exceed $25 million.

On June 23, another Inco subsidiary, Société de la Tiébaghi, reported that it will carry out an exploration program and feasibility study, in cooperation with several other French companies, to determine whether a long-closed chromite mine in New Caledonia can be reopened on an economic basis. Société de la Tiébaghi, which owns the mine, will manage the exploration and feasibility program which is expected to last about two years.

Production and maintenance employees of the Manitoba Division returned to work on June 28 after a 12-day strike called by members of the United Steelworkers of America to

INCO LIMITED AND SUBSIDIARIES

Consolidated Financial Statements - June 30, 1976

(In Thousands of Dollars)

Statement of Earnings

	Second Quarter		Six Months	
	1976	1975*	1976	1975*
Net sales	$516,542	$413,912	$950,245	$833,361
Other income	11,842	6,404	17,707	15,081
	528,384	420,316	967,952	848,442
Costs and expenses	368,949	287,921	690,784	570,130
Depreciation and depletion	28,392	27,947	57,246	55,502
Interest expense	16,295	11,593	31,676	23,786
Pension expense	12,964	9,737	25,642	19,960
Currency translation adjustments	2,533	(11,920)	14,514	(15,294)
	429,133	325,278	819,862	654,084
Earnings before income and mining taxes	99,251	95,038	148,090	194,358
Income and mining taxes	45,588	40,781	71,142	83,168
Net earnings	$ 53,663	$ 54,257	$ 76,948	$111,190
Net earnings per share	$0.72	$0.73	$1.03	$1.49
Shares outstanding at end of period	74,573,761	74,551,654	74,573,761	74,551,654

* Restated

Balance Sheet

	June 30, 1976	Dec. 31, 1975
Cash and securities	$ 91,960	$ 104,919
Accounts receivable	342,395	290,939
Inventories	846,799	726,075
Prepaid expenses	12,681	8,443
Total current assets	1,293,835	1,130,376
Property, plant and equipment (net)	1,941,052	1,785,047
Cost in excess of net assets acquired	40,540	42,089
Other assets	69,207	68,163
	$3,344,634	$3,025,675

	June 30, 1976	Dec. 31, 1975
Accounts payable	$ 278,077	$ 265,802
Notes payable	345,861	192,040
Current taxes payable	67,684	83,081
Total current liabilities	691,622	540,923
Long-term debt	740,353	611,236
Deferred taxes	353,500	342,300
Other liabilities	49,903	46,863
Common shares	96,463	96,310
Retained earnings and capital surplus	1,412,793	1,388,043
	$3,344,634	$3,025,675

Statement of Changes in Financial Position

	Six Months	
	1976	1975*
Financial resources were provided by		
Net earnings	$ 76,948	$111,190
Depreciation and depletion	57,246	55,502
Deferred income and mining taxes	11,200	11,200
Long-term borrowings—net	122,418	22,078
Currency translation adjustments not affecting working capital	6,329	(8,548)
Other—net	6,647	2,176
Total	280,788	193,598
Financial resources were used for		
Capital expenditures	215,830	120,373
Dividends paid to shareholders	52,198	52,180
Total	268,028	172,553
Increase in working capital	$ 12,760	$ 21,045

* Restated

These statements are expressed in United States currency and are subject to year-end audit and adjustments.

protest the rollback by the Anti-Inflation Board of wage increases provided in the collective agreement signed on March 1, 1976. The employees voted overwhelmingly to accept a three-year agreement, terminating February 28, 1979, which over the full term of the agreement provides essentially the same wage and benefit package as the March 1 agreement. The new contract provides for increases of 15.0 per cent in the first year, 9.8 per cent in the second year and 6.0 per cent in the third year, in accordance with the decision of the Anti-Inflation Program Administrator, who overruled the Anti-Inflation Board's rollback. The wages and the majority of the benefits are retroactive to March 1, 1976.

On May 25, 1976, the Canadian government announced proposed changes in the Anti-Inflation Program which impose significant additional constraints on allowable profits from companies' domestic sales. The Company has conveyed to the appropriate authorities its conviction that the proposed changes are unfair and will impact adversely, both directly and indirectly, on the Canadian economy and hence on all Canadians. Inco has formally requested the government to withdraw or substantially modify the proposed new regulations.

On July 22, the Board of Directors declared a quarterly dividend of 35 cents (U.S.) a share, payable September 1 to Class A and Class B shareholders of record on August 4. The dividend on the Class B Common Shares was declared payable out of "1971 capital surplus on hand" as defined in the Income Tax Act of Canada. Dividends of 35 cents (U.S.) a share were paid in March and June of this year.

Edward Grubb

Chairman and Chief Officer

J. Edwin Carter

President

July 22, 1976